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Urban Property Insurance: A Guide to Local Issues, Problems and Remedies

An Urban Consortium Guidebook

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An Urban Consortium Guidebook

Prepared by:
Public Technology, Inc.
Secretariat to the Urban Consortium
Washington, D.C.

and

The Granville Corporation
Washington, D.C.

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The contents of this report do not necessarily reflect the views or policies of the Department of Housing and Urban Development or the United States Government.

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Foreword

Property and casualty insurance are necessities today. It is almost impossible to own a house or operate a business without them. However, some individuals and businesses, especially those in urban areas, find affordable and adequate insurance coverage difficult to obtain.

This situation is troubling for public officials, community organizations, businesspeople and individual citizens concerned with the availability of mortgages and home improvement loans, one of the essential ingredients for a healthy, viable community. To the extent that such insurance is not available, local officials and others involved in community revitalization efforts are properly concerned.

This report is intended to help educate local officials and others about urban insurance issues and problems and to inform them about steps that can be taken to address them at the local level. Insurance is essentially a private sector function, regulated by state government, with some Federal involvement in special insurance availability programs. There is no direct role for local governments in insurance matters, and it is not the intention of this guidebook to suggest a new local government function.

However, it is important for local officials to better understand how insurance fits into the pattern of urban decline and revival so that they can best determine the most appropriate roles that they might be able to play in resolving insurance problems. As this report suggests, there is virtually nothing that City Hall can do by itself. But, once a basic understanding of insurance issues is achieved, there are many constructive steps that can be taken and many useful partnerships that can be formed at the local level. It is hoped that this report will stimulate such action.

A number of local and state governments, community organizations and insurance industry organizations, agents and companies assisted in the development of this guidebook. We are especially grateful to several key insurance industry representatives who reviewed successive drafts of the report and generously shared their knowledge and time with us. The development of the guidebook was made possible by a grant to Public Technology, Inc., by the Office of Policy Development and Research of the U.S. Department of Housing and Urban Development. The help and support of all these parties are gratefully acknowledged.

Marilyn Burkhardt

Marilyn Burkhardt
Chairperson
Project Advisory Committee

Introduction

In recent years, local governments have become increasingly involved in the problems of urban neighborhoods. As we learn more about how neighborhoods really work--how they decline and revitalize--it has become more apparent that neighborhoods are very complex. Many important interrelated activities need to be successfully performed for a neighborhood to be viable--trade, finance, real estate, public services.

Recognition has also been given to the important role that insurance plays in the health of a city and its neighborhoods. In modern society, insurance is a virtual necessity; to get a mortgage, to operate a small business, to drive a car, insurance is required. Increasingly, local governments and community groups have been receiving complaints and requests for assistance on insurance matters--rates are generally increasing, policies are sometimes cancelled or renewals are refused, some urban residents find adequate coverage difficult to obtain.

What should a local government do when confronted with such situations? Should it become involved in the resolution of insurance matters or leave them to the state government and the private sector? How does insurance actually work and are there appropriate roles for local government in the insurance system? How does insurance relate to credit availability and local revitalization efforts? How would a local government determine and verify if insurance problems actually exist in its jurisdiction? If problems are present, what, if anything, can local government do?

Purpose of This Report

The purpose of this report is to build the capacity of local governments to deal with urban insurance issues at the local level. The report explains how insurance works, analyzes specific urban insurance issues and problems, and identifies potential solutions to these problems that can be employed at the local level.

The reader should recognize that local governments, community groups and other local actors are not the primary actors in the insurance field. Full resolution of urban insurance problems will be required by the insurance industry itself, and by the state and perhaps Federal levels of government, as well. But, as this report demonstrates, local governments can, with a sound understanding of insurance and urban insurance issues, play a constructive role in the resolution of some urban insurance problems.

The Audience for This Report

Specifically then, this report is intended for a variety of public and private sector actors concerned about insurance in urban areas. The primary audience is local government officials involved in community revitalization and stabilization efforts. Such officials might include: neighborhood planners, mayoral assistants, rehab program directors, city council members, small business program leaders, and the like. The official will generally be one who recognizes that insurance is a key element of community viability and seeks to learn more about how insurance works, what kinds of insurance problems may arise, and, if such problems do arise, what remedial steps can be taken to address them.

Others who should find this report of interest will be community-based organizations and businesses, local insurance brokers and agents, state insurance commissioners and insurance trade associations.

This report, then, is designed for local officials and others to use as a practical, problem- and solution-oriented guidebook on urban insurance. It is primarily based on documentation and analysis of actual problems and solutions. It is intended to provide an understanding of the insurance system and key insurance issues, and to encourage constructive local government involvement in addressing urban insurance problems.

Some words of caution are in order. Insurance is complex and this report will not make one an insurance expert. However, it should provide local officials with a practical understanding of the workings of the industry and the nature of urban insurance problems. The local "solutions" listed in this report are all relatively new, and in some ways, experimental. Few have been rigorously evaluated or stood the test of time. Practically speaking, most everyone at the local level is still relatively low on the "learning curve" on urban insurance issues. This documentation and sharing of the leading local experiences hope-fully will increase awareness and knowledge of available options, and will stimulate creative thinking. Not all solutions are appropriate for all local contexts. Every city is different and insurance problems vary; each local government will need to tailor strategies to its particular situation and its own capacities. Finally, although this report focuses on what realistically can be done at the local level, the most effective local actions imaginable will not eliminate the need for continued and expanded actions by the insurance industry and all levels of government to meet urban insurance needs.

Organization of the Report

The report is organized into eight chapters, as follows. The first two chapters provide background on urban insurance issues:

- Background on Urban Insurance uses the illustrative example of an urban property owner to help describe how insurance works. It covers such topics as the need for insurance, the different kinds of insurance coverages and companies, the cost and pricing of insurance, and the institutional environment in which insurance is bought, sold and regulated.

- Compelling Insurance Issues in Urban Areas demonstrates why local officials in urban areas need to be concerned about insurance. It discusses the important need for insurance and the specific insurance problems facing urban residents and businesses. It also provides an overview of steps that are currently being taken to address these problems and suggests potential roles that local governments might play in the problem-solving process.

The next five chapters address five specific urban insurance problems. Each chapter describes the nature of the problem, suggests how to determine if the problem exists in a community, reviews the range of local remedies being used to address the problem, and suggests the most appropriate role for local government in dealing with each problem.

- Ensuring Available, Accessible, Adequate and Affordable Insurance considers the most basic insurance issues--Is insurance readily available to urban property owners? Can they afford it? Are adequate coverages being provided? Is it easily accessed?

- Improving FAIR Plans examines issues surrounding government-sponsored insurance plans developed for individuals and businesses not being covered by the conventional insurance market.

- Meeting Consumer Information Needs looks at the capacity of consumers to intelligently shop for insurance and to effectively resolve problems that might arise with their individual policies.

- Addressing Problems With the Law reviews the adequacy of existing consumer-oriented legislation and regulations on insurance.

- Reducing Risk discusses the legitimate risk-related reasons why insurance companies do not write insurance on certain inner-city properties.

The report concludes with a summary.

- In Summary: Appropriate Roles for Local Government summarizes the preceding chapters in terms of identifying the nature and extent of insurance problems in a particular urban area and deciding upon the most effective role that local governments can play in resolving such problems.

The Appendices of the report include a list of people and organizations that can serve as resources on urban insurance, a selected bibliography, a glossary of insurance terms, and additional useful materials.

Development and Conduct of the Project

This report was developed in response to concerns about urban insurance raised by local government officials. The project began with the work of senior-level local officials serving on the Community and Economic Development Task Force of the Urban Consortium. These officials--planners, community development directors, mayors' staff--identified urban insurance problems as a widespread concern for large urban jurisdictions in 1979. Under their guidance, a background research paper was developed by The Granville Corporation of Washington, D.C. This initial paper identified issues in urban insurance and provided evidence that some important steps were being taken at the local level to address insurance problems.

The Task Force presented the paper to the U.S. Department of Housing and Urban Development (HUD) and encouraged the Department to support further research on the topic in order to document and disseminate information about urban insurance problems and solutions that were being developed and implemented at the local level. HUD agreed with the need for such research and approved this project along the lines that the local officials had recommended.

The project began with a general review of several urban insurance problem areas. With the input and advice of an advisory committee comprised of representatives from local and state governments, community organizations and the insurance industry (listed on page iii), the project team decided to focus on the specific property insurance issues covered in this report. Also with advisory committee input, a wide range of potential remedial strategies were identified. Site visits to document leading strategies were made to Baltimore, Chicago, Cleveland, Detroit, Gary, Kansas City, Milwaukee, Montgomery County (Md.), New York City and Philadelphia. Additional information was collected through correspondence and telephone interviews with numerous individuals across the country. Successive drafts of the guidebook were reviewed by the advisory committee, the project has benefited greatly from their advice.

This project has been undertaken by Public Technology, Inc. (PTI) and The Granville Corporation. PTI is a nonprofit, public interest research and development organization that works on a wide range of technical problems of concern to local governments. PTI sponsors the largest local government cooperative research and development effort in the nation, serving three networks of cities: the Urban Consortium, representing cities and counties over 500,000 population; the Urban Technology System, serving cities over 50,000 population; and the Community Technology Initiatives Program, serving cities under 50,000 population. The Granville Corporation is a private research and development firm that has a particularly strong record in the insurance and urban development fields.

Insurance is essential to revitalize our cities. It is the cornerstone of credit. Without insurance, banks and other financial institutions will not--and cannot--make loans. New housing cannot be constructed, existing housing cannot be repaired. New businesses cannot expand, or even survive.

President's National Advisory Panel on Insurance in Riot-Affected Areas, Meeting the Insurance Crisis in our Cities (Washington, D.C.: U.S. Government Printing Office, 1968), p. 1.

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Background on Urban Insurance: What Local Officials Need to Know

Summary

- Property insurance is a virtual necessity in a modern society for anyone trying to secure a mortgage or operate a business.
- Insurance is a complicated business; the insurance product itself is often not well understood by consumers.
- Insurance is sold by independent agents (who represent several different companies), exclusive agents (who sell one company's product), and by brokers (who represent the insured and can place insurance with several different companies). Some insurance companies sell directly to the consumer and have no agents or brokers.
- Different types of insurance companies specialize in different kinds of risks, ranging from preferred risk (good prices, very selective) to surplus lines (will insure almost anything if the price is right).
- Insurance rates are set by territories based on complicated factors aimed at measuring risk. The Insurance Services Office (ISO) is the leading rating bureau. Some insurance companies also develop their own rates.
- Insurance policies may be written as actual cash value, repair cost, or replacement cost. Some insurance companies are developing improved policies for older structures that had previously been covered for only actual cash value.
- FAIR Plans are special insurance facilities set up by state governments to provide coverage for residents and businesspersons who cannot obtain conventional insurance coverage.

The following story is fictitious, but it should provide the local official with a basic understanding of how the insurance industry operates, how property insurance is sold, priced, regulated and formulated, and the kinds of problems urban residents face when buying insurance.

Claire Jones and the Insurance Maze

This chapter tells the story of Claire Jones. The volume of information that she receives while trying to purchase insurance is probably far greater than any single individual gets or needs in real life. If you need more information than Claire gets, you might start with the bibliography at the end of this handbook.

On April 15, 1981 Claire Jones decided to make the first major investment of her life. After months of search, she finally found the perfect place, a two-unit townhouse in a neighborhood that seemed likely to revitalize. The building needed some work, but it was basically sound and the price was right. She could live in one unit, rent the other, and fix everything on her own. Even her banker approved. All she had left to do before settlement was to get insurance on the property.

Claire had always purchased her auto insurance from an insurance company that employs full-time agents. She had known her agent for more than five years. Two years ago, her agent had told her about something called renter's insurance and she'd bought that, too. Renter's insurance covered her household goods against fire and theft and also covered her against personal liability in case anyone tripped on her rug, got clawed by her cat, or got hit by the baseball bat that was holding her bedroom window open.

Claire called her agent, Lucy Bellows, and told her all about the property she was buying.

"Look, Claire," came the reply. "I've known you for a long time and I think I owe it to you to be honest. I can sell you an insurance policy for your duplex, but I'm not sure you wouldn't be able to get a lower price from another company.

"I'm an *exclusive agent*. I have a contract with the Willing Insurance Group and the only policies I can sell are for the two companies in the group. Willing Insurance Company is the company you have your auto and renter's policies with now. They're what's called a *preferred risk company*. Our preferred risk company has very good prices, but they're very selective about what they'll insure. The building you're buying needs too much repair to meet our underwriting criteria, so I'd have to place you with Willing's other company, the Efficient Insurance Company.

"Efficient is a *standard company*. These companies tend to complement preferred risk companies such as Willing. They don't set rates based primarily on their own perceptions of how risky people are. Usually, they feel as if they alone don't have enough data to decide on the right rates. If their rates are too low, they'll lose money, but if their rates are too high, they'll have very few customers. So these companies subscribe to a rating bureau that pools data from its subscribers and publishes rates for them to use. The *Insurance Services Office*, or ISO, operates an independent rating bureau in almost every state. The rates they publish are called standard rates.

"Our standard company has gone its own way a bit with rates. We've been writing some pretty bad risks so we're usually 5 or 10 percent above standard rates. You should be able to get a policy that's a bit below standard rates if you shop around."

"I know what I'll do!" interrupted Claire. "I can get a quote from Wizard Insurance Company. They're the ones who advertise in the Sunday paper. I think they mailed me an application, too."

"That's a good idea, but you know, like everything else, prices can vary a lot. You might want to check with a few companies. Or, you can try an insurance broker or an independent agent. An independent agent represents several different insurance companies."

"Isn't that a little odd? How would they decide which company got my business?"

"They'd try to pick the one with the best price for the coverage you want. Some of them even deal with a third kind of company called a surplus lines company. Surplus lines companies provide coverage for higher than average risks and charge higher than average rates than standard companies. They advertise that they'll insure just about anyone or anything if the price is right. It's sort of like when Lloyd's of London insured Betty Grable's legs, only they specialize in businesses with burglary problems and houses that have been the victims of arson.

"Now where was I before you got me off on this?"

"You were going to tell me what a broker is."

"That's right!" You could almost hear Lucy gearing up again. "A broker represents you, the insured, rather than any given insurance company. Like an independent agent, the broker helps you to locate the coverage you want at an affordable price. In fact, a lot of independent agents also act as brokers when they can't find the right coverage for someone.

"Anyway, I'll send you a fact sheet on the different kinds of insurance companies. Let me know how things turn out."

The next day, the fact sheet arrived in the mail. It was a nice fact sheet but Claire didn't learn anything more from it because Lucy had been very complete. Lucy also enclosed another fact sheet (see next page) that she had lying around. It was about the rate-making process. It wasn't any help to Claire in buying insurance but she learned some interesting things.

That afternoon, Claire began shopping for her insurance. The first insurance agent she called, Susan Snobgrass, asked her where her property was located. "On Fourth Street, near the railroad tracks," she replied.

"Oh," said Susan frostily. "You'll have to come to my office to fill out an application for the insurance. We'll have to do a full inspection of the property, and that may take some time. I don't think I can get an inspector over before next month. And full payment of the policy premium will be required in cash."

"Let me think about it," said Claire hastily and called another agency. Debbie Dynamic was much friendlier. She did, however, point out some serious problems. "Look," she said, "what you really need is a multiple peril policy. That means the policy covers fire, theft, and personal liability. Things like homeowner's and renter's insurance are multiple peril policies. Now multiple peril policies usually are written with what we call replacement cost coverage. The same things that make your building such a good investment make it hard for anyone to give you replacement cost coverage.

SETTING PREMIUMS AND CLASSIFYING RISKS:

A FACT SHEET ON THE RATE-MAKING PROCESS

Insurance rate making is a complex issue. A rate is the price charged for each unit of protection or exposure and should be distinguished from a "premium," which is determined by multiplying the rate by the number of units of protection purchased.

There are basically two types of rates: class rates and individual rates. Class rating, which is the most common approach, is determined by computing the price per unit of protection that applies to all applicants possessing a given set of characteristics. This permits the insurer to apply a single rate to a large number of insurers, such as residential property of 1-4 units constructed of brick or frame, located in the same rating territory. If there are not enough units in a general grouping, e.g., manufacturing risks, individual rates apply. Using the homeowners package policy as an example, the premium is developed in several steps:

- Determine the over-all experience within a state for all homeowners written in the state.
- Factor in changes in loss costs and inflation.
- Determine the actual loss experience and compare it to the loss experience that was anticipated. The differential, plus or minus, is the indicated statewide change to the current premiums.
- Analyze premium and loss experience by existing territories, protection class, construction, policy form and policy amount.
- Compare to state figures.
- Change (increase or decrease) accordingly.

A rate is determined by a combination of factors. A major factor is geography: A state is divided into territories that are thought to be uniform in their level of risk. A territory is usually urban, suburban or rural, and each territory is assigned a rating factor. Other factors are calculated based on their extensive pools of data.

The rate-making process involves some difficult aspects. On average, insurance companies pay out about 62 percent of their premiums to cover losses. Rather than allocating the remaining 38 percent (i.e., the administration costs) uniformly across policies, it is not uncommon to allocate them in proportion to the premium amount. To the extent that premium differences represent differences in the amount of coverage, one can argue that this practice may be equitable. The vast difference in premiums, however, is attributable to differences in risk level. For example, if urban insurance purchasers have ostensibly higher risk levels, and concomitant higher premiums, they pay a higher proportion of the administrative costs.

Insurance agents' commissions also accrue and are allocated in direct proportion to premiums. This commission system, like the cost allocation system, increases the cost for high risk individuals. It also creates three types of agent incentives. First, and positive in impact, the agent is highly motivated to find insurance for a high risk person since the policy will generate a large commission. Second, and mixed in impact, the agent has a great incentive to assure that all adverse factors are counted against the person. Third, and negative in impact, the agent may not be overly concerned with finding the lowest cost policy since it would engender a lower commission.

"You bought your building for a lot less than it would cost to rebuild it. That's why its price will go up so much as people fix up that neighborhood. Suppose I gave you an insurance policy now that covered the cost of replacing your building. If you had a fire, I'd pay you much more than you paid for the building. So we don't sell replacement cost policies on most old buildings. Instead, we usually sell actual cash value policies or repair cost policies. I just got a brochure that explains the differences. Let me read part of it to you.

ACTUAL CASH VALUE VS. REPLACEMENT COST VS. REPAIR COST POLICIES: A FACT SHEET

- Actual Cash Value (ACV) coverage insures the actual market value of the property at the time of loss. In the insurance business, actual cash value is defined as replacement cost less depreciation for wear, tear, and obsolescence of the property at the time of destruction, or in the event of a partial loss, the value damaged. (From the policyholder's standpoint, the full cost of rebuilding or repairing is not written. Depreciation, that is, wear and tear, is deducted before settlement.)

- Replacement Cost coverage insures properties for the full amount it would take to repair or rebuild in the event of a partial loss. In the event of a total loss, a policyholder may not receive the full amount it would take to rebuild unless coverage for 100% of the cost to rebuild was purchased.

- Repair Cost Coverage insures properties at actual market value in the event of a total loss. The policy, however, covers the full amount for partial losses up to the face value of the policy but using commonly used materials, e.g., dry wall instead of plaster.

An example might be useful to differentiate these types of policies. Consider a 50-year-old house in an inner-city area with a market value of $22,000, and a replacement value of $50,000. The house sustains $20,000 worth of fire damage due to a faulty flue in the chimney. If the insured had a replacement cost policy written for at least 80% of the cost to rebuild today ($40,000), the $20,000 loss would be covered in full. Under a repair cost policy written at market value ($22,000), repairs would again be paid in full. The difference would be in materials used, e.g., carpeting instead of oak floors, no depreciation would be involved. Under ACV, the damage and conditions of the damaged section of the house would be considered to determine the amount of depreciation to be deducted from the settlement offer. In an older home, especially one needing maintenance, this figure can be significant. If 50% depreciation were applied, the insured would get $10,000 to repair the building. Hence, the owner might take the $10,000 and use it as a down payment on another home. This kind of event contributes to abandonment of fire-gutted inner-city buildings.

Hence, if the owner had a repair or replacement cost policy, the building would probably have been repaired (at little or no expense to the insured), and the viability of the neighborhood kept intact.

"So that's the main reason that actual cash value (ACV) policies aren't as good. The problem with ACV policies is depreciation--when the cost to repair the physical damage is greater than the actual cash value, you will not collect enough to rebuild your house if it burns to the ground."

"That's outrageous," Claire interjected. "I'm going to call the Mayor and complain."

"Just calm down. I work with several insurance companies that have tried to solve this problem in different ways; some companies have developed new types of policies. The repair cost policy is a new kind of policy. Other companies are talking about policies that would pay full repair cost if the property is restored after the fire but would only pay market value if the owner bought a different building instead. That kind of policy can be real important if we don't want a lot of fire-gutted shells in our older neighborhoods.

"Something else that's happened recently is ISO's new language that corrects a flaw in the original replacement cost wording. It used to be that repair of fire damage was based on replacement with equivalent materials and workmanship. That's fine out in the suburbs with newer homes. In the city, if you've got an old house with lath plaster walls and hand-forged nails, it's terribly expensive. Many companies are now switching to policies that offer replacement using commonly available materials.

"Another type of policy that may interest you is the new historic policy. Both the National Association of Independent Insurers and ISO have developed model historic buildings policies.

"One insurer is offering these policies for homes that have been nominated for the National Register of Historic Places and homes in historic districts recognized by Federal, state or local governments. The policy lets you buy replacement cost coverage for as little as 50 percent of the building's replacement cost.

"Now, I think we're ready to talk about which policy is best for you," Debbie said, with just a trace of pride in her voice. Twenty minutes later, Claire had quotes to think about on two different policies, one from Wise Insurance Company and one from Ethical Insurance Company.

Claire also had a growing suspicion that the second agent she'd talked to would not sell her a homeowner's policy, and called again to see if she was right. After she asked for Susan Snobgrass and told the secretary that Claire Jones was calling, she waited a long time. When the secretary returned, she said Mrs. Snobgrass was out. No, she didn't know when Mrs. Snobgrass would be back and all the other agents were out, too.

An hour later, Claire walked into the offices of Southfork, Northville, and Highborn, Insurance Agents, and asked for Susan Snobgrass.

"I'd like to fill out an application for insurance," Claire told Susan.

"Certainly. Where's the property?"

"On Fourth Street."

Susan's smile changed. "You're Claire Jones, aren't you? I've been thinking about your property. I can get you coverage with the FAIR Plan. It's perfect for your neighborhood."

"Is it a homeowner's policy?"

"Well--not really, but it's an excellent policy. It includes fire insurance coverage."

"Isn't FAIR Plan a strange name for an insurance company?"

"That's because it isn't really a company. FAIR is an acronym that means Fair Access to Insurance Requirements, and is a plan that insures riskier properties. FAIR Plans began at a time when it was becoming difficult to buy insurance in the inner city. Insurance companies writing in this area participate in the FAIR Plan. About 26 states and the District of Columbia have FAIR Plans. We can also get you Federal Crime Insurance if you want, too."

"Do you have a brochure on it?"

"Probably, but I don't have time to look for it. You can fill out an application if you like."

Claire took the application with her and called Debbie. "Do you have a brochure on the FAIR Plan or Federal Crime Insurance?"

"Sure. I'll send them to you if you want. The policies we talked about are better than the FAIR Plan, though."

"I know, but send the brochure anyway. I'm getting educated. By the way, I'll take the policy from Wise Insurance Company. Do you need a deposit?"

"No, we'll bill you. I can have a binder to your settlement attorney tomorrow if you want."

"Good! And thanks Debbie."

By noon the next day, Claire had her fact sheets on FAIR

Plans and Federal Crime Insurance.* She read them avidly.

At 2:00 p.m., Claire was on the phone to the Federal Insurance Administration (FIA).

"Hello, my name is Claire Jones and I'd like to file a complaint about an insurance agency that wouldn't sell me a homeowner's policy."

"I'd be happy to listen to your problem and see if I can help you, but we don't have the legal authority to correct individual problems," came the reply from FIA.

"Well, what Federal agency does?"

"None, really. Regulation of insurance is strictly a state function. I'll send you a brochure about insurance regulation if you'd like."

"Please do. Thanks."

"Claire really didn't want to call the state, it seemed so far away--so she called the City Hall consumer protection agency instead. It proved equally fruitless. The city, however, was interested in insurance problems and was keeping a file documenting them. They were interested in her case but told her that they had no enforcement power and were just building up evidence to present to the State Insurance Commission. They said they would incorporate her complaint with the others. They also had worked with local community groups to convince some large insurers to make adequate insurance available in the inner city, and they were participating in a joint insurance task force that included local insurance agents, bankers and community leaders. The city also had special insurance available to homeowners to cover the quality of property rehabilitation done by contractors.

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*For facts on these programs, see Chapter 4.

Claire spent the next few days getting ready to move. On Monday, fact sheets on insurance regulation and insurance trade associations, arrived (they are reproduced on pages 16-18). After reading them and all the other materials, she realized, however, that her choices were limited in trying to get any satisfaction in the matter of Southfork, Northville, and Highborn, Insurance Agents. After a long talk with the regional HUD Fair Housing Advisor, she considered filing a complaint with the State Insurance Commission alleging that the agency and/or the insurers it was under contract with were discriminating against a minority neighborhood. To document her case, she talked with a number of other people who had problems with the agency.

When Claire talked with businessowners, she learned about the kinds of coverages that are available for businesses. Lucy even had a fact sheet on commercial insurance and sent it along to Claire.

COMMERCIAL INSURANCE COVERAGES: A FACT SHEET

Insurance options for businesses are similar to those offered to residents. That is, businessowners as well as homeowners can either purchase a fire insurance policy or a multi-peril policy. The multi-peril policy is similar to homeowner's coverage in that it insures against fire, theft and liability.

Many inner-city shop owners cannot get multi-peril policies. Instead they buy separate fire, theft, and liability policies and have the option of attaching riders for additional coverage. Typical riders attached to fire policies include:

- Rent or rental value insurance
- Business interruption insurance
- Contingent business interruption and extra expense insurance
- Leasehold interest coverage
- Plate glass insurance (for store front windows)
- Sprinkler leakage insurance
- Earthquake insurance
- Accounts receivable and valuable papers insurance
- Rain insurance

There are currently two kinds of commercial multi-peril insurance policies available: the Special Multi-peril Policy (SMP) and the Businessowners Policy (BOP) for small businesses. Like homeowners's and renter's insurance policies, the SMP and BOP are the "Cadillac" policies for businesses and include fire, theft, and liability insurance. Specialized coverages, such as plate glass and business interruption insurance, can readily be attached to the policy.

The "Cadillac" policy can result in significant premium savings, up to 15 to 20 percent.

Plate glass and business interruption insurance are not available in FAIR Plan policies.

Three years later, Claire's case against Southfork, Northville, and Highborn was still on appeal. However, two weeks after she filed her complaint, she started preparing for her second major investment. She enrolled in an insurance brokers training course and started exploring how to become a partner in an insurance brokerage firm.

INSURANCE REGULATION: A FACT SHEET

In 1869, the Supreme Court ruled that the business of insurance was not interstate commerce subject to Federal law (Paul v. Virginia, 8 Wall 168 /1869/). When the Sherman and Clayton antitrust legislation passed in 1890 and 1914, the insurance industry was therefore considered exempt. However, in 1944, the Supreme Court ruled, to the industry's great surprise, that the insurance business was interstate commerce subject to Federal antitrust laws (United States v. South-Eastern Underwriter's Association, 322 U.S. 533 /1944/).

In direct response to the 1944 decision, Congress passed compromise legislation, the McCarran-Ferguson Act (Public Law 79-15). This Act states that the insurance industry is subject to the antitrust laws "to the extent that such business is not regulated by state law," except the Federal Government can intervene in controlling boycotts, coercion, and intimidation (15 U.S.C. Section 1011-15, 59 Stat. 33). By the time the Act took effect in 1948, 46 of the 48 states had adopted model regulatory legislation promulgated by the National Association of Insurance Commissioners, with the support of the insurance industry.

State Insurance Commissions

Most states have established state insurance departments or commissions to supervise the state's insurance practices. The commissions, which can act independently, generally are good sources to contact if problems occur or if they are perceived.

The capability to license insurance companies or revoke licences is perhaps the greatest power an insurance commissioner possesses. Commissioners also have the capacity to approve or reject rates, they can hold hearings on and order changes in rates and territories, investigate the validity of risk data and procedures, document claims of redlining or discrimination, and recommend state government action. They can also hold hearings on complaints.

The National Association of Insurance Commissioners (NAIC), an organization comprised of 51 insurance commissioners from the states and Washington, D.C., has been an active force in the regulation of insurance since its founding in 1971. Although it has no legal power over insurance regulation, on the basis of its two annual meetings, NAIC makes recommendations for legislation and policy. Commissioners are free to accept or reject these recommendations.

The model state insurance regulatory legislation passed in response to the McCarran-Ferguson Act created considerable uniformity in the rate-making process. Aside from Texas and Massachusetts, where the states set insurance rates, all states recognize private or industry-operated rating bureaus, many of which have since merged into the Insurance Services Office.

The model laws established a prior approval system whereby all rates were filed with the state insurance commissioner and either were approved by the Commissioner or automatically became effective for subscribing firms if no objection was interposed within a fixed time limit (generally 30 days). Companies were allowed to file rates that deviated from bureau rates for specific risk classes, but the laws allowed the rating bureaus to minimize their members' opportunities to deviate from the bureau rates. Some companies chose not to subscribe to a rating bureau; they were called independent rate filers.

Over time, other methods of regulating rate making developed. At one extreme, Michigan holds public hearings before approving proposed rate schedules. Several states have a file and use system under which rate changes are filed and can be used immediately. The rates may be subsequently disapproved by the Commissioner.

An important distinction exists between systems dominated by a rating bureau and open competition systems. As indicated on the next page, 10 states use an open competition system, which does not permit the insurance commission to review rates before they become effective. There are two kinds of open competition systems: no file and use and file. In the no file system, companies are not required to file rates for approval by the commission. They become effective immediately without this prior approval. Under the use and file procedure, rates are filed then immediately used without the insurance commission's approval. The difference in desirability of use and file over file and use, from an insurer's perspective, is that companies can react to rate change needs quicker—they can use the new rate while waiting for approval.

Selection Competition: The Road to Greater Profits

The better-managed insurance companies have relied increasingly on independently filed rates. Independent rate filing results from an economic phenomenon that is summarized in an oft-quoted speech by Benjamin R. Schenck, superintendent of the New York State Insurance Department,* who said:

> In insurance, there is one form of competition that seldom exists in the case of other products or

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*Remarks before 1972 Joint Convention of National Association of Casualty and Surety Executives, October 9, 1971.

> services. That is selection competition--the ability of an insurer to affect its success, not by the price or quality of its products, but by selecting its customers in a fashion that will give it an advantage over its rivals. Selection competition is a feature of the insurance economy which seems to provide a ground for fashioning for insurance a series of special rules unique to its problems and circumstances.

The basic tenet of selection competition is to maximize profits by shifting the riskiest policies to other companies without substantially reducing insurance rates. For this reason, insurance companies will refuse to insure those they believe most likely to incur losses in their risk class. The suburban homeowner then might find it easier to obtain insurance from a preferred risk company than might the city homeowner in the lower fire risk class. This could occur if the suburban home were considered an average fire risk in its insurance risk class while its city twin was considered a higher fire risk in its class. Under these circumstances the city homeowner might well be forced to seek insurance in the residual risk market. In this instance, the city homeowner is more likely to pay a higher price for insurance than is the suburban homeowner, and is more likely to obtain less adequate coverage, even though the city home has the lower fire risk.

The second aspect of selection competition is an attempt to skim the lowest risk persons from other companies' portfolios by splitting or gerrymandering the rating bureau risk classes (i.e., underwriting) and offering slightly lower rates to attract the desirable class. This practice implies increasingly sophisticated attempts to discern loss trends more accurately than does one's competition and to profit from the astuteness of one's analysis. It also means that the slightly higher risks within a given class find it increasingly harder to find insurance at reasonable rates. Unfortunately, underwriting is sometimes based not on actuarial data but on "experience," e.g., a judgment that low income inner-city areas are worse risks.

RATING LAWS AT A GLANCE

STATE	RATES	STATE	RATES
Alabama	Prior Approval*	Missouri	Use and File
Alaska	Prior Approval	Montana	File and Use
Arizona	Use and File +	Nebraska	Prior Approval
Arkansas	File and Use	Nevada	File and Use
California	No File +	New Hampshire	Prior Approval
Colorado	No File +	New Jersey	Prior Approval
Connecticut	File and Use	New Mexico	Use and File +
Delaware	Prior Approval	New York	File and Use***
District of		North Carolina	File and Use
Columbia	Prior Approval**	North Dakota	Prior Approval
Florida	Use and File +		
Georgia	File and Use	Ohio	Prior Approval**
Hawaii	Prior Approval	Oklahoma	Prior Approval
Idaho	No File +	Oregon	File and Use
Illinois	Use and File +	Pennsylvania	Prior Approval
Indiana	File and Use	Rhode Island	Prior Approval
Iowa	Prior Approval	South Carolina	Prior Approval
Kansas	Prior Approval	South Dakota	Prior Approval
Kentucky	Prior Approval	Tennessee	Prior Approval
Louisiana	Prior Approval*	Texas	Prior Approval
Maine	Prior Approval	Utah	Use and File +
Maryland	Prior Approval	Vermont	Prior Approval
Massachusetts	Prior Approval	Virginia	File and Use
Michigan	Prior Approval	Washington	Prior Approval
Minnesota	File and Use	West Virginia	Prior Approval
Mississippi	Prior Approval	Wisconsin	Use and File +
		Wyoming	Prior Approval

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* Certain types of filings are file and use.

** Casualty filings are file and use.

*** Filings changing classification or territory are subject to prior approval.

+ Open competition rating laws in effect.

Source: Communication with State Farm Insurance Company, Bloomington, Ill., 1980.

INSURANCE ORGANIZATIONS: A FACT SHEET

Trade associations and bureaus are nonprofit private organizations whose members may be insurance companies, agents or brokers. Generally, they provide public information, maintain legislative liaison, and study pending legislation at the local, state, or national level. Another aspect of the associations is to educate the public on insurance matters, and to keep members informed.

Insurance companies generate large amounts of data, and associations collect, organize, and analyze it, and make it available for members and others to use, thus making these associations good resources for information seekers.

There are many trade associations at the national, state and local levels. Listed below are a number of the better known national organizations of insurance companies, agents and brokers, and other organizations that might be useful contacts:

Insurance Organizations

Alliance of American Insurers
20 N. Wacker Drive
Chicago, Illinois 60606

American Institute for Property
and Liability Underwriters, Inc.
Providence & Sugartown Roads
Malvern, Pennsylvania 19355

American Insurance Association
85 John Street
New York, New York 10038

Insurance Information Institute
110 William Street
New York, New York 10038

Insurance Institute of America, Inc.
Providence & Sugartown Roads
Malvern, Pennsylvania 19355

Insurance Services Office
160 Water Street
New York, New York 10038

National Association of
Casualty & Surety Executives
5225 Wisconsin Avenue, N.W.
Washington, D.C. 20015

National Association of
Independent Insurers
2600 River Road
Des Plaines, Illinois 60018

National Association of
Insurance Commissioners
633 W. Wisconsin
Milwaukee, Wisconsin 53202

National Association of
Insurance Women
1847 E. 15th Street
Tulsa, Oklahoma 74104

National Association of Mutual
Insurance Companies
7931 Castleway Drive
Indianapolis, Indiana 46250

Property Casualty Insurance
Council
First National Bank Plaza
Suite 3960
Chicago, Illinois 60603

Risk and Insurance Management
Society Inc.
205 E. 42nd Street
New York, New York 10017

Surety Association of
America
100 Wood Avenue South
Iselin, New Jersey 08830

Agents' and Brokers' Organizations:

Independent Insurance Agents
of America Inc.
85 John Street
New York, New York 10038

National Association of
Casualty & Surety Agents
5225 Wisconsin Avenue, N.W.
Washington, D.C. 20015

National Association of
Insurance Brokers
111 John Street, Suite 2700
New York, New York 10038

National Association of
Professional Insurance
Agents
400 N. Washington
Alexandria, Virginia 22314

Other Organizations:

Federal Insurance Administration
451 7th Street, S.W.
Room 5136
Washington, D.C. 20410

National Committee on
Property Insurance
55 Court Street
Boston, Massachusetts 02108

Midwest Advisory Committee on
the U.S. Civil Rights Commission
Federal Building
Chicago, Illinois 60604

Peoples Housing Network
617 Park Avenue
Syracuse, New York 13204

National Training and
Information Center
1123 W. Washington Boulevard
Chicago, Illinois 60607

Ohio Training Center
1027 Superior
Cleveland, Ohio 44114

Oregon Fair Share
2926 N. Williams
Portland, Oregon 97227

> We have worked long and hard to improve our neighborhoods, and we have made real progress on every level. Our neighborhoods are showing the results, and we're proud of them. Now, at the very time when our work is paying off, we're finding that we either can't get or can't afford to protect our homes with insurance. The lack of decent insurance coverage is threatening to destroy all the work we have done.
>
> Gail Cincotta
> National Peoples Action
> Chicago, Illinois

2

Compelling Insurance Issues in Urban Areas: Why Local Officials Need to be Concerned

Summary

- Property insurance, like mortgage financing and public services, is a necessary element in efforts to revitalize cities and their neighborhoods. Therefore, local governments need to be concerned about insurance.

- Local governments and community groups have been receiving increasing numbers of complaints and requests for assistance on insurance matters in recent years, which probably means that serious insurance problems exist in some urban areas.

- Such problems affect consumers, agents, brokers and companies. The problems are wide-ranging. They include: difficulties in securing affordable and adequate coverage, the withdrawal of insurance from certain inner-city areas, neighborhood deterioration and arson, and excessive dependence on FAIR Plans.

- Urban insurance problems generally fall within four categories (the "four As"): Availability (is coverage readily available), accessibility (is it easy to obtain) adequacy (are coverages and conditions of the policy reasonable and responsive to consumer needs), and affordability (is it priced at a reasonable rate).

- Urban property insurance problems are currently being addressed in a variety of ways and by a number of different actors. The remedies include: legal and regulatory reforms, consumer education, new kinds of insurance products, and new collaborative efforts between government, the insurance industry, and community groups.

- Local governments, while not having a primary responsibility for insurance matters, are concerned about how insurance difficulties affect local revitalization efforts. They are increasingly taking on monitoring, advocacy and collaborative roles to help address urban insurance problems.

The preceding story of Claire Jones was fictitious, but--while her experiences have been exaggerated--they may not be altogether unreal. There are probably many residents and businesspersons in urban areas who, like Claire, need insurance but find the insurance industry a confusing maze, or who have difficulty finding affordable and adequate insurance.

Each chapter in this book addresses a specific set of urban insurance problems and potential local remedies to these problems. Each chapter gives a general description of the nature of the problems, suggestions as to how to determine whether or not the problems exist in a given community, a review of the range of remedies being used to address the problems and, finally, some advice as to the most appropriate local government role in solving the problems.

This chapter examines some of the compelling issues and problems associated with property and liability insurance in urban areas. The primary intent is to provide the local official with an overview of the problems that residents and businesses in their jurisdictions may be facing, a summary of how these problems have been addressed by government and industry across the nation, and some thoughts on roles that local governments can realistically play in the solution of these problems.

The Need For Insurance

Urban property insurance is a necessity today. The availability of credit and insurance can affect the continued growth and vitality of inner-city areas, and is considered essential to revitalize neighborhoods. A city's offer of financial incentives to bring businesses and residents into urban areas may have little success if insurance is unavailable or unaffordable.

> As a banker I would say that the availability of insurance directly affects the availability of credit. . . . you don't write mortgage loans without property insurance. . . . Insurance is one of those make-or-break links in the chain.*

In recent years, local governments and neighborhood organizations in urban areas have recognized the important role that insurance plays in the health of a city and its neighborhoods. At the same time, such organizations have received a rapidly increasing number of complaints and requests for assistance on insurance matters. These inquiries are coming not only from citizens and businesses but from concerned bankers and insurance agents.

Insurance Problems Facing Urban Areas

The problems are multiple. They are by no means problems that affect consumers alone; problems particular to urban markets also affect insurance agents, brokers, and companies. Some of these problems are listed below:

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* Remarks by William D. Plechaty, Senior Vice President, Continental Illinois National Bank, Chicago, Conference Report on Insurance Redlining and Reinvestment: Directions for Change (sponsored by the National Training and Information Center and the Illinois Advisory Committee to the U.S. Commission on Civil Rights); March 22 and 23, 1979, Chicago, Illinois, p. 33.

- Insurance agencies in the inner city find their longstanding insurance sources severing their relationship.
- Residents and businesses cannot find agents willing to sell insurance in their neighborhood--or can only obtain policies at unfavorably high rates.
- Insurance companies, faced with high arson rates, excessive losses and unprofitable business conditions, withdraw from some urban markets, or become more restrictive in the range of coverage options available and more careful in deciding what risks to insure.

The consequences of urban insurance problems, regardless of their causes, have been and continue to be quite serious. Many persons would identify those consequences as a pivotal factor in the pattern of neighborhood decline and revitalization.

Urban property insurance problems are sometimes grouped into four general categories, called the "four As". They are:

- Availability--the extent to which insurance is provided in an area.
- Accessibility--the ease with which consumers can match their insurance needs with producers or sellers of insurance.
- Adequacy--the ability to secure the needed insurance.
- Affordability--the cost of insurance.

Related problems, including arson, the special needs of small businesses, and environmental hazards*, also exist. These are discussed at points throughout the report.

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* Environmental hazards include such occurrences as riot, civil disorder, neighborhood blight, crime and other hazardous conditions that might give rise to loss under an insurance contract, but are beyond the control of the property owner.

In this section, the "four As" are defined to provide the local official with a basic understanding of current problems. Succeeding chapters of this report describe in more detail the specific problem areas that local governments may wish to address. Generally, these are problem areas in which corrective measures have been sought and tested, and to which local governments can make a worthwhile contribution.

1. Availability

Insurance availability in a neighborhood, city or state, can be influenced by several factors:

- Sound business practices dictate that some risks are uninsurable at any cost. Environmental factors may restrict the availability of insurance.
- Insurance industry surplus requirements (assets over and above loss reserves required to meet possible liability obligations) restrict the amount of insurance a company can write.
- Insurance marketing practices restrict insurance availability based on perceived risk associated with a particular geographic area. Such practices may include:
    - selectively placing agents
    - selectively refusing or varying insurance availability solely due to the age of a structure
    - using participation in a FAIR Plan as cause for denial
    - terminating agents and non-renewing policies placed by agents in an area
    - varying underwriting practices solely by zip code
    - requiring that application for insurance be made in person
    - requiring unusually large downpayments on the insurance premiums or the total premium amount for policies in some areas.

Several local governments and community groups have collected data on property insurance availability and cancellations in urban areas. By and large, their studies indicate that both residential and commercial insurance coverages are more difficult to obtain and retain in central cities. Problems for businesses are significantly greater in some areas.

Strategies that have been adopted by government, the insurance industry and consumers to remedy insurance availability problems are described in Chapter 3.

2. Accessibility

Access to the producers or sellers of insurance is an important factor in the provision of insurance: if qualified agencies that have contracts with major insurance companies are absent from inner-city neighborhoods, consumers and producers alike are forced to incur greater "costs" in acquiring and servicing insurance. For instance, an agent or broker who is unfamiliar with an area may be reluctant to write a policy without first inspecting the structure. The cost of inspections is an expense factor that ultimately becomes part of the premium paid by the consumer.

Problems related to the accessibility of insurance affect agents as well as consumers.

> . . . agents complained that they were being caught in the middle. Allan H. Bowie, a Brooklyn broker said /his/ company two years ago told him he had to raise his annual minimum volume by nearly one-half, to $80,000, of which 60 percent had to be commercial, and not to renew any policies. Those restrictions were later waived. But the company is still not accepting any new policies from him. "It's a way of getting out of all

> the little guys," Mr. Bowie maintained. . . . /The company's/ vice president for New York acknowledged that the company had moved to "sever relations with a number of agents and brokers who were unprofitable" and "to establish some minimum requirements and mix" while "withdrawing from personal lines" of insurance.*

To some extent these problems may be the result of sound business practices. An insurance company cannot be expected to underwrite unprofitable insurance company policies, but the withdrawal of agents and brokers from a particular area may leave that area underserved, making insurance more difficult for residents and businesspersons to obtain.

3. Adequacy of Coverages and Conditions

Securing adequate coverage for businesses and homes is closely tied to availability problems. For example, a policy that covers only the fire hazard is less desirable than a homeowner's policy that covers fire, theft and personal liability. Similarly, the consumer benefits from a choice of payment plans rather than a required front-end payment of the entire premium. In some instances with FAIR Plans, for example, the more favorable coverages and conditions are not available to the consumer.

A particularly troublesome problem with respect to coverage arises in areas of low housing demand where it is often easier to purchase a new home than to rebuild after a fire. This can lead to abandonment. More importantly, when the cost of rebuilding the structure is more than its market value, fire can mean profit. To prevent arson, inner-city policies often offer actual cash value rather replacement cost coverage, a practice that almost assures abandonment of fire-gutted structures.

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* Ralph Blumenthal, the New York Times, "Insurance Redlining Rises As Homeowners Hurdle," (January 24, 1979).

A major problem regarding availability and coverages for inner-city retailers is the inadequate coverage provided by the involuntary insurance market, i.e., insurance provided through programs mandated by state laws. FAIR Plans are an example of this.

Particularly troublesome are claims that the maximum limit of coverage covered under Federal Crime Insurance programs is insufficient, and that in some states liability and business interruption coverage, both essential to the conduct of business, are not available through the FAIR Plan.

4. Affordability

As with other goods or services, the cost of insurance is a concern. The cost of insurance has risen rapidly, partly because construction costs have skyrocketed. A more important issue from a public policy standpoint, however, is the complex issue of equity. In an ideal world, all people would pay insurance premiums exactly equal to their expected insurance payout. Equity measures how closely this ideal is achieved. Since prices must be set in advance based on statistical trends in cost to the insurer, perfect equity cannot be achieved. Also, rate structures and risk classification systems have inherent inequities, i.e., of neccessity, in any risk class some policies will be offered to those who will pay premiums greater than the expected payout and vice-versa. A change to a more equitable system implies changing to a socially optimal price structure from one that is maximally profitable. Such a change is not likely to take place for the simple reason that insurers are "in the business" to make a profit.

Nevertheless, community organizations and local governments view actuarial fairness--that is, the establishment of rate structures and classification systems that are based on statistically fair guideliness--as an important concern. Also, since rate determination--the method by which insurers set prices--is a state regulated process, local governments may want to participate in decisions on changes in rate determination methods, and encourage rate determination research that holds promise for increasing equity while maintaining a market pricing structure.

Overview: How These Problems Are Currently Being Addressed

Problems related to the provision of property insurance in urban areas are currently being addressed by a variety of actors in cities and states across the nation. This section presents a brief overview of the various methods used and the groups involved. A more detailed discussion of individual approaches and strategies keyed to specific problem areas is presented in Chapters 3 through 7.

State insurance departments, the Federal government, community groups, local governments and the insurance industry itself have all taken steps to address the urban insurance problems mentioned earlier in this report. The approaches range from grassroots efforts to disseminate consumer information to the reform of state laws regulating the insurance industry. It is probably fair to say that, to date, consumer organizations have been the driving force behind the insurance industry's and government's responses to these problems. The actions of these groups are briefly characterized below.

1. Federal and State Government Response

- State regulation
- State outreach programs
- FAIR Plans to address availability problems
- FAIR Plan reforms to address specific problems with FAIR Plans

a. State Regulation and Outreach Programs. The insurance industry is state regulated and changes in rate-making or the laws themselves can only occur at the state level. Some insurance departments have taken timely action to address consumers' concerns. A few departments have promulgated new legislation and executive orders requiring insurers to disclose their underwriting practices; others have passed anti-redlining legislation. In addressing the adequacy of coverages, many insurance departments are approving and authorizing new insurance products specifically tailored to inner-city needs.

Lack of consumer insurance information is a concern that various insurance departments have responded to by initiating toll-free hotlines and outreach (education) programs. Others have participated in consumer/industry/government task forces to investigate problems and recommend changes. The exhibit on the following page lists some of the problems articulated by consumers and some of the remedies adopted at the state level.

b. FAIR Plans and FAIR Plan Reforms. Beginning in 1967, numerous states responded to insurance availability problems by passing Fair Access to Insurance Requirements (FAIR Plan) legislation. FAIR Plans require area insurance companies to participate in state-authorized programs that offer property insurance to hard-to-insure but not legitimately uninsurable properties. Losses are shared among the participating companies by contributing to a pool that would cover any losses in excess of premiums collected on FAIR Plan policies.

The riots of the mid-1960s brought heavy insurance company losses and frightened the insurance companies. Worried that further riots could wipe out their operating reserves, companies restricted their underwriting activities; only intervention by state insurance commissions forestalled wholesale cancellation in some cities.* This led to the passage of the Urban Property Protection and Reinsurance Act of 1968 (as part of the Housing and Community Development Act of 1968). With this the Federal government established a secondary layer

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* U.S. Department of Housing and Urban Development, Full Insurance Availability (Washington, D.C.: Government Printing Office, 1974), p. 25.

EXHIBIT 1

LIST OF PROBLEMS AND REMEDIES OBSERVED AT THE STATE LEVEL

PROBLEM/COMPLAINT	REMEDIES/ACTIONS ADOPTED BY SOME STATES
Lack of consumer information on insurance	• toll-free hotline • active outreach program
Affordability of insurance	• (state) investigation of ISO rate-making procedures • regulation or deregulation • changing price, e.g., accepting or rejecting the Holtzman Amendment, of FAIR Plans to be equal to that of voluntary insurance • creation of a consumer/industry/government task force to investigate problems and recommend changes
Availability of insurance	• anti-redlining legislation • policy of state leadership to "do what it takes" to get the voluntary market to take a new look at inner-city risks • legislation and executive orders requiring insurers to disclose data • incentive (credit) and non-credit programs to depopulate FAIR Plans and provide good risks with voluntary insurance
Adequacy of coverages	• approval and authorization of new insurance products for the inner city (also addresses the availability problem)

of insurance; it offers reinsurance for losses due to riot or civil disorder inthose states where insurers participate in FAIR Plan programs. Such plans are operated under the supervision of the state insurance regulatory authority and comply with Federal statutes and the regulations of the Federal Insurance Administration (FIA).*

After the threat of riots dissipated, it was found that FAIR Plans left much to be desired in terms of modern insurance concepts. In many states, FAIR Plans leave serious gaps in protection by omitting theft, burglary and personal liability coverage. In response to these and other problems, insurance departments and companies, partially at the behest of consumers, have begun to reform FAIR Plans. These reforms are covered in detail in Chapter 4.

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* _Op. cit._, p. 18.

2. Consumer/Community Response

Community organizations--both organized and ad-hoc groups--were the first to call attention to urban insurance problems in inner-city neighborhoods. They have aggressively pursued investigation and resolution of these problems at every level of government in cities and states across the country.

Their tactics typically involve documentation of the problem through surveys of neighborhood businesses and residents, possible test calls to agents to determine availability of insurance, and documentation of accessibility of insurance by plotting the location of agents on a city map. Confronting insurers and government with the existence of the problem is often the next step. The stated goal is to get a formal commitment from the involved parties to investigate the problems and to take immediate concrete actions to resolve them.

While consumer activist tactics have drawn strong criticism, they have succeeded in bringing government and public attention to problems that had not been effectively addressed previously.

Community groups have also been credited with an instrumental role in formulating partnerships between government, industry and neighborhoods in pursuit of solutions to inner-city insurance (and other) problems.

3. Insurance Industry Response

The response from insurers to inner-city insurance problems varies. It has been creative and enthusiastic in some cases, and unsympathetic in others. Various insurance companies and trade associations currently are undertaking a variety of remedial actions, including: developing new products to better meet the needs of older, inner-city areas; creating model cancellation and declination bills that outline the reasons for a risk being turned down (and how to correct them); developing outreach programs to provide for affirmative marketing of property insurance; and offering other insurance options to FAIR Plan policy-holders. Some companies have also made significant cash investments in neighborhoods to help rebuild deteriorating urban infrastructure and minimize risks.

Recent attempts by consumer groups and government to persuade insurers to more freely disclose underwriting data and support legislation to outlaw "redlining" have received mixed responses from insurers and regulators alike. Specific industry actions to ameliorate inner-city insurance problems are reviewed in greater detail in Chapters 3 through 7.

What Role For Local Government?

Insurance is a private sector function, regulated by state government with some Federal involvement to help assure availability. The potential role of local government must, therefore, be viewed in this context.

The goal of this report is to create an awareness of insurance and its implications in urban areas for local governments. Generally, we view an expansion of local government's role into the regulation of insurance as unnecessary and undesirable. Our goal in this primer is to offer local government officials information on a subject that may be a priority concern to their constituents: urban property and liability insurance. The primer provides sufficient information on what is being done and what has been accomplished in various parts of the country to help local governments build a capacity in their own jurisdictions to develop solutions to insurance problems.

It has been said by consumers, bankers and government officials that urban property insurance is essential to the vitality of cities, and that it is a necessity for homeowners and businessess. Little is said of how this essential consumer good relates to local government functions. Quite plainly, it meshes with city programs and goals that are designed to revitalize urban neighborhoods and commercial areas. Property insurance can complement and secure public investments, such as infrastructure, property rehabilitation and mortgage loan programs. Its absence, however, can create a climate of disinvestment and weaken the effectiveness of those programs. Given the importance insurance plays as one of many factors that contribute to the vitality of urban areas, local public officials need to better understand the nature of insurance--how it is provided and regulated, and what measures have been and can be adopted to resolve problems with it in their cities.

In sum, we view the role of local government as a catalyst and facilitator of positive interactions between consumers, the insurance industry and the state. Although the state has ultimate responsibility in the insurance arena, it is the role the local government plays in cities where insurance problems exist that may be the decisive factor in resolving these problems.

How can local government be decisive in an area controlled by the state? By:

- Being informed and able to detect problems
- Investigating and documenting problems
- Bringing attention to the problems
- Urging others to act constructively
- Collaborating with others to solve the problems
- Taking direct action to minimize risk
- Being part of the remedy.

Problems in the availability and affordability of essential insurance are not new, but they are more serious today than ever before.... In pursuit of the ideal policyholder, many property and casualty insurance companies appear to be employing practices that exclude large segments of cities and whole classes of consumers regardless of the loss records of individuals.

> Honorable Howard M. Metzenbaum, U.S. Senator. Opening remarks before the U.S. Senate Subcommittee on Citizens and Shareholders Rights and Remedies, January 17-18, 1978, Hearings on Rights and Remedies of Insurance Policyholders (Washington, D.C.: U.S. Government Printing Office, 1978), pp. 2-3.

3

Ensuring the Availability, Affordability, Accessibility and Adequacy of Urban Insurance

Summary

- Local government can aid the efforts of community groups and other organizations to document insurance problems in an area. Cities can lend important credibility and resources to this process. Local governments can assist in statistical data collection and analysis efforts and may also be the key facilitator in calling together diverse groups.

- The measurement of urban property insurance availability, accessibility, adequacy and affordability, is essential to local government's understanding of the extent of the insurance problem. Two of these categories, accessibility and availability, can be measured through the use of key indicators that may be obtainable from insurance companies, the state insurance commission or well-informed community organizations. Adequacy and affordability are difficult to measure because indicator criteria, such as a client's perception of insurance adequacy, are difficult to quantify.

- In the absence of an active state-run complaints investigation program, local government may wish to pursue a policy to identify the true nature and extent of reported insurance problems within their jurisdictions.

- Once local governments have verified insurance problems within their jurisdictions, it is imperative that strategies be adopted to bring together the key actors who are capable of developing solutions.

- There are many strategies local officials can use to alleviate insurance problems, as the chapter demonstrates. A common denominator among strategies is to develop working relations with key actors in the community (e.g., representatives from major underwriters in the area, bankers, neighborhood and business organization leaders, etc.).

Before any remedy is contemplated by local government, local officials should seek to obtain an objective, thorough and accurate account of the nature and extent of insurance problems in their jurisdictions.

This chapter discusses how some jurisdictions have documented their problems and looks at the remedies they designed to alleviate the problems. Some common denominators make it possible to apply one area's experience to another; these are posited when relevant. Also included in this chapter are local government strategies for involvement and intervention both in documenting problems and in designing remedial strategies.

Evidence of the Problem

Concrete data will help to pinpoint the insurance problems facing inner-city residents and businesses, and will help to assure residents that the problems will not be ignored or dismissed. But how does the local government official know if there are insurance problems in an urban area? It is probably safe to say that most inner-city neighborhoods have had at least some problems with insurance in the past and, even with new initiatives by insurance companies and local groups, some jurisdictions are still experiencing difficulties.

Chapter 2 defined the "four As" of available, accessible, adequate and affordable insurance. This section discusses the criteria local officials and others may use to measure the "four As" in a given jurisdiction, and also discusses how some groups have used these measures to document urban insurance problems.

1. Measurement Problems

Measurement of urban property insurance availability, accessibility, adequacy and affordability is important. The following list highlights a set of key indicators that should provide local officials with a rough but comprehensive picture of property insurance in their locality.

- Availability may be indicated by:
    - Percent of persons in surplus lines
    - Percent of persons who desire insurance but cannot obtain it
    - Percent of urban residents, landlords and small businesses covered by FAIR Plan policies.
- Accessibility can be measured by:
    - Number of brokers/agents per capita
    - Number of companies writing property insurance in the area
    - Application requirements:
        - .. Percent that must apply in person
        - .. Percent of clients who had to have their property inspected as a pre-condition for coverage, regardless of the age of the property.
- Adequacy is a difficult characteristic for which to identify or use valid indicators. However, some appropriate indicators, which should be applied separately for homeowners, landlords and small businesses, include:

- Client's perception of insurance adequacy
- Client's satisfaction with insurance
- Percent of persons who have multiple peril policies
- Terms of policies
  - .. Actual cash value versus repair cost versus replacement cost.

Affordability measures, like adequacy measures, are difficult to define. When a neighborhood's residents complain to local officials that insurance is only available at unaffordable prices, local officials presently have no way of knowing whether these claims are true. Examinations of relative affordability, or equitability, between areas is similarly hampered, this has added complexities associated with comparisons among hundreds of risk classes, many of which vary from one company to the next.

A consumer's complaint that insurance is priced "so high" that he or she cannot afford it does not necessarily indicate that there is an affordability problem. Affordability must be examined in terms of price equitability across neighborhoods; that is, the price of insurance should be compared with those for similar structures in a different neighborhood. This will determine, for example, if policy premiums for similar buildings in the inner city are similar in price.

At present, no good insurance affordability measurements have been developed. However, Exhibit 2 presents an untried methodology devised by the authors that may provide a way of equating prices of comparable risks throughout a city. Using sophisticated analytic techniques, a

EXHIBIT 2

RELATIVE PRICE INDEX AS AN INDICATOR OF EQUITABLE INSURANCE COSTS

The following methodology, developed by the authors, may provide a useable relative price index for insurance. The index is intended to be used to examine relative equity in price across neighborhoods or between cities within a state. This method, however, is untried. Furthermore, the methodology suggested requires considerable statistical analysis; it should only be attempted by personnel with strong backgrounds in quantitative modeling.

The object of index development is to examine what insurance for five prototypical houses would be likely to cost in each study area. Examination involves the following steps:

- From survey data, determine the frequency with which different insurers issue policies in each area
- By dividing the number of policies per insurer by the number of policies issued in a neighborhood, convert the frequencies to probabilities that residential property owners in the neighborhood will obtain policies from each insurer
- From state insurance commission records, extract the price that each insurer would charge for homeowners insurance on each of the five prototype houses if it were located in the city/neighborhood of interest
- Multiply the price for each company by the probability that each company will provide a policy in the neighborhood to obtain the expected price for insuring each prototype house.

The prototype houses, for purposes of this index, can all be located within 500 feet of a fire hydrant and one mile of a fire house. The prototype houses used in the index should represent the most common ones in your area, both in construction, age, and price. For example, the five prototype houses might include:

- A new brick high-priced structure
- A new frame high-priced structure
- An inexpensive 64 year old brick semidetached structure
- An inexpensive 45 year old frame semidetached structure
- An inexpensive 45 year old brick detached structure

Some care is needed in comparing the relative insurance price data that results when this procedure is applied in different jurisdictions because the jurisdictions' loss experiences may differ. One way to control for these differences (but one that should not be used within a single state) is to assume that ISO rates are equitable—as they are based on a uniform methodology—and calculate the relative prices as a percentage of ISO rates. The resulting index values should then provide a workable basis for comparison of equitability of property insurance prices between jurisdictions within a state.

BEST DOCUMENT AVAILABLE

"relative price index" of insurance could be calculated to judge relative price equitability across neighborhoods and across cities within a single state.

2. Documentation Problems

The preceding section indicated that problems with insurance affordability and adequacy are difficult for any jurisdiction to measure. In order to develop data on whether a problem exists, the local government may choose to aid local organizations in gathering data, or may decide to gather the information itself. Local government involvement in documentation efforts can lend important credibility to the resulting data.

This section describes what methods local governments, community groups, and other organizations have used to document problems. Methods include:

- Statistical data collection and analysis
- Analysis of number and proximity of agents and brokers in the area
- Anecdotal case studies
- Active policy of complaints investigation.

a. Statistical Data Collection and Analysis. Collecting data and analyzing them can serve both as the first clear indicator of problems and as the "hard facts" to take to insurance companies and commissions, and Federal, state and local legislatures. Data collection can take several forms, including surveys and statistical analyses of risk-related data.

The local government can take the lead in investigating insurance by conducting its own survey. (See Exhibit 3 for one city's efforts to survey insurance companies.) Alternatively, questionnaires--administered by telephone, face-to-face, or by mail--can be developed and supplied to groups wanting to conduct their own survey. Local governments also might permit a group to use city telephones to conduct a telephone survey.

Local officials, also, can offer to analyze survey data gathered by community groups and, in fact, should urge that someone analyze it. Some groups survey and collect data, but never analyze it--often this is a problem for community groups that lack in-house survey expertise, suffer staff turnover, or rely on volunteers for assistance in survey design and analysis. Many groups have gathered survey data on insurance problems and only used it to develop a few anecdotal case histories. These histories are valuable, as discussed later on in this chapter, but the effort is diminished by not analyzing and reporting all the available information.

As with any survey, a representative sample of respondents should be selected and the survey should directly address the implications of non-response and the possible bias it introduces. Interviews should probably not exceed 20 minutes in length, but comprehensiveness is important. For instance, after a survey on accessibility has taken place, it may be determined that adequacy problems could have been documented by the same respondents if only those questions had been asked.

EXHIBIT 3

SAMPLE QUESTIONS TO ASK INSURANCE COMPANIES THAT WRITE PROPERTY AND CASUALTY INSURANCE IN YOUR AREA*

1. How many policies did you sell last year nationally and in this area?
2. Are there any neighborhoods where your company does not write insurance? Why?
3. How do you arrive at your rates? How are territories determined?
4. Do you or your agents have a uniform underwriting policy?
5. Do you or your agents have designated "high risk" neighborhoods?
6. Do you have any agents who do not sell insurance to a particular city neighborhood?
7. Do you require new applicants to apply in person?
8. Does your company inspect each new applicant's premises?
9. How many new applicants have been approved? How many rejected? Why?
10. How many new applicants were referred to a FAIR Plan (if available in your area)? Why?
11. How many of your cancelled customers (nationally and in this area) appealed their cancellations?
12. Does your company have uniform standards for cancelling or not renewing a policy?
13. Has your company cancelled more policies than it has written? Not renewed more than it has written? For what reasons?
14. What are your most common reasons for cancellation or non-renewal?
15. Is the policyholder's home or business inspected prior to cancellation? Prior to renewal?
16. Does your company specify in writing the reasons for cancellation or renewal?
17. How many days' advance notice does your company provide for non-renewals or cancellations?
18. Does your company have an affirmative action program concerning older neighborhoods?
19. Is your company involved with revitalization of older neighborhoods?

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*The questions here were primarily culled from a sample survey designed several years ago by the Citizens Advisory Committee of the Community Development Agency in Youngstown, Ohio.

Surveys on availability, accessibility, and adequacy work well to document problems. Surveys on affordability problems do not work as well because insureds' perceptions of insurance costs alone are not valid indicators of affordable insurance.

Furthermore, data on actual insurance prices cannot readily be interpreted except in the context of numerous rating factors (brick or frame, distance to fire station, etc.). To interpret these data correctly, one would need an extremely large interview sample. The use of prototype houses and insurance commission records as suggested earlier in this chapter is probably the only cost effective way to obtain data on affordability. At times, verified and documented case studies may also prove useful for this purpose.

It is important when assessing statistics to bear in mind that the data alone do not always tell the whole story. Statistics must be analyzed and compared to see the true picture. To assert, for example, that an area has an accessibility problem because several agents moved away, without first investigating the reasons, is to draw an erroneous conclusion. The agents may have moved away simply because they retired.

Examples of Surveys. Local governments and community groups have undertaken surveys in numerous cities, including Gary, Indiana; Bronx, New York; Cleveland, Ohio; and Detroit, Michigan. In Detroit, for example, the Northwest Business Council surveyed local businesses on their perceptions of insurance availability. Volunteers from VISTA conducted the survey. (See Exhibit 4 for a discussion of the survey. The survey instrument appears in Appendix B.) Other cities have surveyed brokers. Bronx Borough President Robert Abrams used a mail survey, while the New York Public Interest Research Group and Senator Carl Levin, when he was the Detroit City Council President, used face-to-face interviews.

The National Training and Information Center (NTIC) and Metropolitan Area Housing Alliance, both in Chicago, advocate a different type of data collection. They suggest using "test call" telephone surveys on a regular basis to assess the availability of insurance on reasonable terms with reasonable preconditions. (See Exhibit 5 for NTIC's test call survey instrument.)

Late in 1980, the Federal government initiated a study of urban insurance problems in 22 cities. The study was subsequently cancelled in 1981 with the change in Federal administration. (Appendix B contains a slightly improved version of the Federal Insurance Administration's business and resident questionnaires that were administered in Detroit, Los Angeles, Miami, and New York in December 1977.)

Statistical Analysis of Secondary Source Data. Another valid form of data development is statistical analysis of risk-related data obtained from existing data sources. If, for example, a jurisdiction is a separate ISO territory with a higher rate than others, the situation may indicate an affordability problem and warrant investigation. One approach to investigation of territorial problems is to examine

EXHIBIT 4

DETROIT NORTHWEST BUSINESS COUNCIL AND THE UNIVERSITY/ COMMUNITY ALLIANCE STUDY OF SMALL BUSINESS INSURANCE

The study is an assessment of business insurance availability and adequacy in Detroit in mid-1979. The study is part of the Detroit Urban Crime Prevention Program of the Neighborhood Service Organization, and was funded by the National League of Cities and ACTION. The study examined the relationship between urban insurance problems in order to provide the community with documentation of problems and to examine strategies for change. The study also analyzed sources of business insurance.

A major portion of the study was a face-to-face interview survey of 134 businesses in a commercial section of Detroit's inner city, the Livernois business strip.

This comprehensive report describes:

- The basic and additional coverages of business insurance
- The sources of insurance in Michigan
- The differences between FAIR plan and voluntary market coverages
- The perceptions of local businesses on insurance availability
- Location as an underwriting factor, which includes actual photocopies of several insurance company underwriting guidelines that implicitly suggest location is to be considered an underwriting factor
- The surplus lines agents in the county (so that residents who want to may contact them)
- The ISO Liability Rate Table, which contains the rates for minimum coverage in Michigan
- Recommendations for action to alleviate problems in the availability and affordability of business insurance.

The report is a very good start at documenting neighborhood business insurance problems. It does fall short, however, in that the survey did not ask for information on whether or not insurers were offering separate burglary policies instead of all risk policies in the area, but "several agents did indicate that writing all risk coverage on the strip would be 'more difficult' but not impossible."

EXHIBIT 5

NTIC HOMEOWNERS INSURANCE AVAILABILITY TEST CALL SURVEY INSTRUMENT

Insurance Company Name:
Address:
Telephone No.:
Insurance Agent:

Date:
Time:
Test House:
Zip Code:

Insurance agent I contacted stated that he must:

_____Know the zip code where the house is located. Direct quote of agent contacted in this call_____________________

_____Know the age of the building._____________________

_____Know the type of building._____________________

_____Know the condition of dwelling._____________________

_____Know the market value of the building._____________________

_____Know if I have ever been cancelled, nonrenewed, rejected by another company._____________________

_____Require an inspection of the property before granting insurance.

_____Obtain my signature in person before considering my request for insurance._____________________

_____Other._____________________

The Insurance Agent Then:

_____Offered insurance at a premium of $_____

_____Offered a policy with the following coverage:_____Fire _____Extended _____Theft _____Liability _____Other

_____Offered insurance at _____market value _____replacement cost _____% of replacement cost

_____Required a $_____ downpayment; a $_____ theft deductible _____Other underwriting standards:_____________________

_____Offered only the FAIR plan at $_____ because _____________

_____Refused to grant insurance at all because_______________

_____Other comments made by the agent _____________________ how rates compare with loss experience. Obtaining data to use may prove difficult, in part because rate-making may mask troublesome statistical practices and in part because the insurance commission may not allow the public access to rating bureau information. A reasonable approach might be to develop a set of indicators of loss rate and magnitude. For property insurance, some data on fire incidence and magnitude may be available, possibly in fire department or arson investigation files. Boeckh's Building Costs Index provides construction cost data; FBI data on crime rates are also available.

It is difficult, however, if not impossible, to correct inequities many years post facto. Data can be used at a later time, though when rate changes are proposed. (It should be noted that rate changes are filed only by insurance companies or ISO. This method of investigating affordability problems may be useful if the local government testifies to the insurance commission at hearings on rate changes.)

b. Accessibility of Agents and Brokers. The number of agents and brokers and their proximity to the inner city can be prime indicators of insurance accessibility. A simple technique to assess proximity is to look through the yellow pages--an area that has few or no agents or brokers may indicate an area with difficulties in obtaining insurance.

Detroit has studied agent accessibility several times. A few years ago the City Council examined the distribution of agencies per capita and found it much lower in the inner city than in other areas. Recent agency cancellations were also documented. Another study in Detroit by the Women's Conference of Concern recently found that there was still a paucity of inner-city agents. The Conference interviewed about 30 agents randomly chosen from the telephone book, and asked them about their inner-city activities. Most of the agents indicated that it was becoming increasingly harder to purchase homeowners insurance in the private marketplace in Detroit. The information from this study was useful to the Statewide Coalition Against Redlining, an activist group that was advocating anti-redlining legislation.

c. Verified/Documented Case Studies. Another valid tool to document urban insurance problems is to gather individual case histories. Local governments as well as community- and insurance-related organizations are often the recipients of telephone calls from individuals who have specific problems. Even if a more systematic approach is adopted, individual case histories can be helpful in hearings and reports, as well as arousing public and media attention.

Each case study, however, must be verified before it is used to document an insurance problem. Until then, it is only an allegation. Case studies have been used by many groups to help substantiate insurance problems. The U.S. Senate, for example, invited individuals, groups, insurance company representatives, and insurance department representatives to testify before the Subcommittee on Citizens and

Shareholders Rights and Remedies in 1978.*

Specialized insurance hotlines also receive complaints and can serve to document problems. If a hotline is effective, the organization supervising it will probably have a fairly clear idea of the "insurance temperature" of the area. The Consumer Protection Agency in Detroit's Office of Consumer Affairs is an example of a hotline that used its complaints file of individual case histories as a basis for testimony at hearings before the insurance commission. In addition, some individuals who had legitimately complained to the agency were asked to testify.

d. Active Policy of Complaints Investigation. Followup of complaints is vital to identify the true nature of the insurance problem. It is not enough to build a case study file without substantiating the claims. Because hotlines often receive calls that on followup are determined to be false accusations, hotline personnel as a rule should follow up on all calls.

State-run complaints investigation departments can be very effective (although experience varies from state to state). In Maryland, for example, the Insurance Commission has an active complaints investigation office. Consumer complaints to this office stimulated a redlining investigation and led to the imposition of a $150,000 fine against a major mutual insurance company for violating the state's anti-redlining law.

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*Hearings on Remedies of Insurance Policyholders, Part 1: Discrimination by Property and Casualty Insurance Companies: The Fairness in the Coverage and Cost of Insurance, January 17-18, 1978 (Washington, D.C.: Government Printing Office, 1978).

The company, which had refused to offer auto and homeowners insurance to most Baltimore applicants, stopped offering insurance in Maryland rather than accept business that it considered risky.

As Claire Jones learned in Chapter 1, insurance is regulated and enforced by each state, and the Federal Government has no jurisdiction over it. However, five regional offices of the U.S. Department of Housing and Urban Development have begun investigations of insurance practices. Exhibit 6 contains a discussion of HUD's initiative in Region 3.

Coordination with area or regional HUD offices to follow up on complaints is one way to become involved with identifying and documenting problems.

EXHIBIT 6

HUD REGION 3 INITIATIVE

The HUD Region 3 Office of Fair Housing and Equal Opportunity, Philadelphia office, recently began an informal documentation effort and remedial program on urban insurance problems. The program began by sending letters to community groups in Region 3 asking, among other things, if there were any insurance problems and if any availability and adequacy problems are evident. Two equal opportunity investigators have been assigned to the complaints department; officials interviewed hope that more investigators would be assigned and that they would also have some insurance training to help them in their work.

HUD investigators acknowledged that while they hoped to bring any discriminatory activities to light and to take that evidence to the U.S. Department of Justice if conciliation with insurance companies is not reached, they must await Congress' approval before the investigation can go beyond the documentation/gathering phase.

Remedies Observed or Suggested

Our field visits and literature searches indicate that effective efforts to document urban insurance problems have been taken in many more jurisdictions than effective efforts to remedy them. Solutions can be difficult to achieve; the most workable have been through the cooperation of the insurance industry and state insurance commissions. Local government has an important role to play in stimulating awareness of local problems and cooperation in their resolution.

The following remedial strategies have been observed:

- Insurance company initiatives
- FAIR Plan reforms
- Participation at hearings
- Lawsuits

These strategies are detailed below.

1. Insurance Company Initiatives

Various insurance companies are taking positive steps to make insurance more available in urban areas. This is one of the areas where insurance companies can make the most noteworthy contribution.

One example of an insurance company initiative that has had positive results in making insurance more available to the urban dweller, as well as increasing profits for the company, is an effort by the Insurance Company of North American (INA). The INA Community Services opened branch offices in several eastern cities in 1978 as part of a pilot program to offer insurance specifically tailored to urban needs. The Cleveland, Ohio, pilot program placed more than 1,000 policies in the first year of its operation. (See Exhibit 7 for a discussion of the Cleveland program.)

EXHIBIT 7

INA COMMUNITY SERVICES
CLEVELAND BRANCH OFFICE

INA Community Services, with branches in Dayton; Cleveland; Columbus; Springfield, Ohio; Springfield, Illinois; East St. Louis, Illinois; and Richmond, Virginia began in 1978 as a separate organization of the Insurance Company of North America. These branches are pilot test projects specifically tailored to the urban areas where the branches are located. Several of the branches have been assimilated into INA, but the rest remain outside the INA administrative structure.

More than one thousand policies were placed in the program's first year of operation. Twenty percent of the policies handled by the branch are with the FAIR Plan. Many of the others are full homeowners policies that include replacement cost coverage.

The program in Cleveland was begun by the branch manager who contacted and visited community groups to ask them what kinds of coverage were lacking and needed. He promised the groups that INA would help to solve the availability problems in Cleveland, and the company backed up his promise.

Another initiative, which stems from joint action by community groups, business leaders and insurance companies, is taking place in Philadelphia. A coalition of community and corporate leaders developed a coordinated housing acquisition/rehabilitation activity and an insurance availability program, named the Philadelphia Mortgage Plan and the Philadelphia Insurance Plan. The Mortgage Plan is a commitment of 14 banks and one savings and loan company to write mortgages in the inner city; the Insurance Plan is a commitment by area insurance companies to underwrite homeowners insurance policies for those who obtained mortgages through the Mortgage Plan.

The authors of both plans, the Greater Philadelphia Partnership, feel that their efforts are easily duplicated, and invite interested individuals to contact them for more information. The designers of the plans stressed cooperation between all involved actors, community, civic, corporate and insurance groups, as the main ingredient for a successful resolution of urban insurance problems. (See Exhibit 19 in Chapter 7 for a complete description of the Insurance Plan.)

The American Insurance Association (AIA) is also concerned about the availability of urban insurance, and published a "Statement of Principles: Urban Property Insurance." This statement, which is reprinted here as Exhibit 8, provides guidance on prior underwriting practices and presents AIA's views on some key issues.

2. FAIR Plan Reforms

In terms of modern insurance concepts, the plans in force in most states leave serious gaps by not offering theft, burglary, personal liability and replacement cost coverage for homeowners and businesses.

Several states are attempting to reduce participation in their Plan. For example, in Illinois, the Metropolitan Area Housing Alliance (MAHA) and Allstate Insurance Company have joined forces to increase consumer and agent awareness of alternatives to FAIR Plan participation. (Chapter 4 of this report is devoted to FAIR Plan problems and reforms.)

3. Participation at Hearings

Many local officials and community groups have found that testifying at hearings is a useful technique in remedying urban insurance problems. The City and County of Los Angeles, grass roots organizations in Detroit, MAHA and NTIC in Chicago, and Michigan's Statewide Coalition

EXHIBIT 8

STATEMENT OF PRINCIPLES
URBAN PROPERTY INSURANCE AVAILABILITY AS ADOPTED BY THE BOARD OF DIRECTORS AMERICAN INSURANCE ASSOCIATION
SEPTEMBER 26, 1979

Underwriting and Marketing

1) Any reliance on geographic location of risks for underwriting purposes must be founded on a business reason which is not a mere pretext for unfair discrimination.
2) Insurers should not make the availability of the property insurance product contingent solely on the basis of age of the dwelling. Age of dwelling is an appropriate standard for determining the price of a product, if objective criteria support the pricing, and for determining the need for an inspection.
3) Underwriting decisions should be made from objective evaluations, not subjective perceptions of "adverse" factors such as the race or sex of an applicant or the racial composition of the geographic area in which the risk is located.
4) Insurers should not decline an application for coverage because it was previously declined by another insurer or because the risk was previously insured by a FAIR Plan.
5) Applicants and insurers should be provided, upon request, specific reasons for an adverse underwriting decision.
6) Inspection reports should be available for review by applicants and insureds, subject to the provisions of the various privacy laws.
7) Applicants and insureds who have received adverse underwriting decisions and taken corrective actions are entitled to reconsideration for coverage.
8) Insurers are urged to examine their marketing methods to assure reasonable accessibility to their products for potential customers.
9) AIA opposes legislative efforts to regulate the contractual relationship between insurers and agents.
10) AIA supports "outreach" programs designed to provide continuing opportunities for education and advice regarding insurance coverages.

FAIR Plans

AIA supports the following standards for FAIR Plans, where these have not already been implemented:

1) Service should be on a par with that provided by voluntary market insurers.
2) Immediate binding of coverage should, under reasonable rules, be afforded to owner-occupied dwellings, provided the necessary premium is paid.
3) Governing committees are urged to employ media devices to encourage consumers to seek coverage in the voluntary market before making application to the FAIR Plan.
4) Governing committees are encouraged to meet with community organizations.
5) Plans should insure as few properties as possible. To this end, AIA supports reasonable, supportable rate differentials from voluntary rate levels, where obtainable, and depopulation programs including, as examples, take-out and keep-out incentives to insurers.

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Against Redlining are among those that are well known for their active participation at insurance commission and state legislative hearings. The groups all stress the importance of being well prepared for hearings and presenting the "hard facts" so that commissioners and legislators will be able to have all the information needed for them to act.

Other cities's efforts have met with varied success. However, alternative channels of assistance at the state level often cannot be accessed until insurance commission options are exhausted.

4. Lawsuits

State and Federal lawsuits have limited potential as methods to alleviate insurance problems. Lawsuits are less preferable than other strategies because they are costly, time consuming and may prove futile in the long run.

Most lawsuits are based on the claim that insurance redlining is Federal discrimination and thus covered under the Fourteenth Amendment, Title VII of the 1968 Civil Rights Act (the Fair Housing Act) and/or the Civil Rights Act of 1966. The Federal Circuit Courts are split on the validity of this claim, and the applicability of the Fair Housing Act is likely to be decided by the Supreme Court.

Strategies for Local Government Intervention

Local government officials are in an ideal position to marshal the necessary resources to develop strategies designed to alleviate the problems with the "Four As". A major first task for the local official in documenting and remedying problems is to gather the data, either from local government files or from groups that have it. Once the data are in hand, the question becomes: What to do with it?

Development of good channels of communication between local officials, insurance departments or commissions, area insurance companies and community groups has proven important. Opening communication lines with the state insurance department, i.e., the agency with ultimate responsibility for insurance matters in the state, should be highest on any local government solution agenda. Good communications assure that all actors are aware of the problems and have an opportunity to cooperate in the remedies.

Various tested remedies were mentioned in the text, including:

- Initiating and maintaining liaison with insurance commissioners, insurance companies and community groups.
- Requesting city council, state legislature and insurance commission hearings, and testifying at them.
- Obtaining problem documentation either by aiding other organizations' efforts or through activities undertaken by the city.
- Coordinating with HUD area and regional offices to follow up on complaints.
- Bringing key actors together for discussions.
- Using the legal system.

The following paragraphs present an overview of strategies local government and community groups may use to remedy insurance problems. (It is culled from the preceding detailed descriptions of remedies we observed in cities across the nation.)

1. Insurance Companies and the Insurance Commission: The Initial Step

Neighborhood groups and local officials can form partnerships to collect and collate documentation and to work on remedial strategies.

It is then possible to bring insurance companies and commissions into the partnerships. The local chapter of independent agents' associations have also proven a fruitful partner, even in the early phases of an effort.

Local officials can hold workshops to bring the insurance company representatives together with neighborhood leaders for discussion. Meeting rooms in government buildings, which provide a neutral setting, can be used for this purpose. Meetings of this type, however, can become unduly confrontational, and local officials should be prepared to preside at the sessions and assume a mediator role.

The National Training and Information Center (NTIC) suggests an alternative strategy that begins by bringing public and media pressure on an alleged offending insurance company. The NTIC stresses the importance of getting to real policymakers who have the power to negotiate a solution to a problem. Their technique, although confrontation-oriented, is worth reading before taking action.* Several insurance companies responded to NTIC's efforts by establishing affirmative insurance programs for the Chicago inner city.

Some state insurance commissions have become sensitized by consumer action or consumer-oriented commissioners and have subsequently taken an active lead in research and legislative action. Massachusetts commissioned studies that constitute major contributions to the literature on equity and accuracy of risk classification. Commissions in Illinois, Maryland and Wisconsin have also moved towards a pro-consumer position.

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* Robert Schachter, "Insurance Redlining--Organizing to Win," in Insurance Redlining: Profits vs. Policyholders (Chicago, Ill.: NTIC, 1978).

Even in these states, however, local government and orchestrated citizen testimony at rate increase and territorial redefinition hearings is important to counter insurance company claims and assure a balanced outcome.

a. Outreach to Insurance Companies to Sell New Products. Several insurance companies have developed new kinds of insurance policies designed for urban areas (as discussed in Chapter 2). The local government official can assist urban residents by contacting insurance companies and agents to encourage them to offer the new types of policies to local residents, or, in cases where there are legal or administrative barriers at the state level, which prevent new policies from being marketed in their jurisdiction, local officials may wish to intervene at the state level. The local insurance trade association or public service offices or the state insurance commission would probably know the companies that are already offering these new types of policies in your area and those that are testing them in other areas.

As insurance companies respond to the concerns of community groups and local government officials by developing new kinds of urban insurance policies, the local government may be able to assist in formulating the specifics of the new policy. The Chicago city government, for example, is represented on the Chicago Neighborhood Housing Services board. The city was instrumental in inviting insurance company representatives to sit on the NHS Central Board, and in helping to develop and fine tune a new basic urban insurance policy.

Local officials can become involved in advertising new policies by:

- Contacting community groups to inform them of the new policy language and its advantages and disadvantages.

- Preparing a fact sheet and distributing it to groups (and/or businesses as applicable.

- Asking the insurance company that initiated the policy to advertise it in community newspapers and local radio and television stations.

These kinds of outreach measures have worked well in some jurisdictions. To reiterate, it is essential that good communication channels be developed between local officials, area insurance companies, and community organizations so that all the actors involved are aware of new initiatives.

b. Outreach to the State Insurance Commission. Where it is feasible, local government representation on insurance commission boards can be a first step in educating the commissions. Representation on the commission board is not always possible (California, for example, has only one commissioner), but liaison in some form is crucial as commissions wield much power. Concerned local officials knowledgeable about the insurance problems in their area should be able to enlist the commission's assistance in dealing with these problems.

2. Know the Law and Use the Legal System

Meeting with insurance companies may be the only step needed. Another action, one which can be taken concomitant with insurance company meetings if needed, is to testify in public forums. The alleged problems can be taken to state insurance commissions, state and national legislatures, insurance boards and city councils.

Local officials can request that the city council convene public hearings on insurance matters. City councils usually have a number of committees through which the problems of urban property insurance can be presented and public attention brought to bear.

Insurance commissions often have to be requested to hold hearings on rate changes. Local government officials may at times wish to request them, submit testimony, and coordinate testimony from community groups. Particularly difficult data problems are likely to arise, however, in those situations where the local jurisdiction wishes to challenge the established rate making pattern. As discussed earlier in this chapter, it is particularly difficult to challenge rates after the fact. Testifying on rate making is also hampered because gathering data from insurance commissions, companies or ISO may not be easy.

The specific problems are best illustrated by a quote from Professor Gelvin Stevenson of Princeton University:

> The rate-making procedures used by the Insurance Services Office (in New York) are marked by a striking contradiction. On the one hand, much thought, work, and money goes into gathering and processing data on which rates are based. On the other hand, the process contains many arbitrary procedures, untested assumptions, (and) some highly subjective elements. Those in key policymaking positions lack a complete understanding of the rate setting process. Categories and procedures have not changed essentially or even been fundamentally evaluated in at least the last 50 years. While scientific in the small it is unscientific in the large.*

Legislative pressure is a strong tool in effecting changes, and many states have enacted anti-redlining legislation as a direct result of local needs. The media can become involved during advocacy efforts, which can also aid in bringing about attention and changes.

3. Use The Federal Government As A Source of Advice

The Federal Insurance Administration is primarily an assistance resource. Its power is restricted to implementing the Federal Riot Reinsurance Program. It also monitors which FAIR Plans comply with the requirements (set by Federal statute) that a state FAIR Plan must meet in order for insurers in the state to be eligible to purchase this reinsurance. The FIA also is a direct seller of crime insurance in many states.

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* Gelvin Stevenson, Fire Insurance: Its Nature and Dynamics (Washington, DC: U.S. National Fire Prevention and Control Administration, October 1978).

In sum, local officials can act as the catalyst to bring consumers with insurance problems together with those who are perceived to be part of the problem, and can also legitimize the areas of concern by presenting them to insurance companies, Federal, state and city legislatures, and insurance commissions.

> Serious criticisms have been made by FIA concerning the operation of the plans, including inequitable treatment of insureds, inferior management, excessive underwriting expenses. . . .
>
> U.S. Commission on Civil Rights, Insurance Redlining: Fact Not Fiction, Washington, D.C. (February, 1979).

4

Improving FAIR Plans

Summary

- FAIR Plans are special insurance plans administered by state governments to help provide essential property insurance to individuals and businesses that cannot obtain conventional insurance.

- Critics of FAIR Plans charge that they often provide urban residents with more costly and inferior coverage than conventional plans, and that FAIR Plans are used as "dumping grounds" for less profitable business.

- Local officials can determine if there are FAIR Plan difficulties in a community by contacting state officials and securing information on the level of FAIR Plan participation, the growth or decline in such participation, the geographic concentration of FAIR Plan use, and the comparision of FAIR Plan prices and coverages with conventional plans.

- Most remedies for FAIR Plan problems properly rest with the state government. These include: improvements in FAIR Plan operations and products, as the State of Illinois has done, and efforts to depopulate FAIR Plans through consumer education, the voluntary placement of FAIR Plan policy-holders with conventional insurers, and incentive programs to induce insurers to make conventional coverage available in problem areas.

- Local government interest in FAIR Plans stems from the recognition that Plan participation is highest in "marginal" city neighborhoods. Since local investments in revitalized neighborhoods need to be protected and adequately insured, local governments are appropriately concerned.

FAIR Plans Defined

Fair Access to Insurance Requirements (FAIR) Plans, are programs to provide essential property insurance to individuals and businesses that are unable to obtain coverage through conventional sources but are legitimate risks. FAIR Plans are authorized by the Urban Property Protection and Reinsurance Act of 1968, but are mandated and regulated by participating states. Consequently, each state's plan is different.

Generally, FAIR Plans are structured as insurance pools in which losses incurred by FAIR Plan policyholders are distributed among the participating companies in proportion to the amount of premiums they write in the state. While the basic intent to serve as an insurer of "last resort" is common among plans, price, coverage, service and level of participation tend to vary from state to state.

Nature of the Problem

In the years that FAIR Plans have been operating, some common problems have emerged. Consumers, public officials and legislators have complained that FAIR Plans are inequitable, discriminatory, overpriced and underserviced and that the coverages are inferior to those of traditional carriers.

FAIR Plans have also been criticized as contributing to the overall decline of cities. Some charge that easy entry into the Plan has enabled insurance companies and agents to "dump" marginal or "undesirable" business and some geographic areas into the state FAIR

Plan. The result is to stigmatize entire geographic areas of a city as poor risks. This has costly implications for housing values and desirability of a neighborhood. Also since FAIR Plans may insure properties that the prudent insurer would not, and because the payoff for a loss may be greater than the value of the premises, the Plans have sometimes been victimized by arson-for-profit schemes.

To the individual who is placed in the FAIR Plan, other problems emerge: he may be unable to get the kind of coverage desired, and may pay higher prices and receive worse service; additionally the stigma of having property insured by the FAIR Plan often occurs. The latter is frequently cited by consumers as a factor that precludes them from obtaining conventional insurance at a future date.

1. Coverages

Most FAIR Plans do not offer the range of coverages provided by conventional insurers. "Essential insurance" is usually offered, that is, fire and extended coverage, vandalism, and malicious mischief on actual cash value policies, but most plans lack the coverages found in multiperil policies, i.e., replacement or repair cost, liability and theft coverage for residents and businesses. Also, tenant insurance is not offered. Notable, however, is that seven states, Illinois, Massachusetts, Michigan, Rhode Island, Wisconsin, Maryland and Ohio, have added homeowners insurance to their plans.*

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* Homeowners Insurance is a comprehensive multiperil policy, which includes insurance against fire, theft and liability.

2. Participation

FAIR Plan participation has for the most part steadily increased over the years. From the time of authorization in 1968 to 1974, over 3 million policies had been written. However, in New York, FAIR Plans were initially heavily utilized, then in the early 1970s the plan was "depopulated", moving large numbers of properties to presumably conventional insurers.

Although some growth is inevitable, participation in the plans has nearly doubled since 1974 (as Exhibit 9 shows). This increase has caused concern among consumers, public officials and legislators about the way the insurance market functions in urban areas.

3. Pricing

FAIR Plans traditionally provide less coverage than the conventional market, but they are often more expensive. (At one time, for example, New York's FAIR Plan prices were three to four times higher than conventional coverage.) Alternatively, when less coverage is offered, the price of the insurance policy may appear lower to the consumer than the price of conventional insurance with greater coverage, and may thus be viewed as a good buy. This is the case in Maryland.

Additionally, FAIR Plan applicants are often required to pay the entire policy premium in advance, while their counterparts in the conventional market enjoy the option of paying in installments.

EXHIBIT 9

FAIR PLAN VERSUS CONVENTIONAL INSURANCE MARKETS AND GROWTH

Year	FAIR Plan % of Total Market	FAIR Plan % of Market in FAIR Plan Jurisdictions	FAIR Plan % Growth Year to Year*	FAIR Plan % Change from 1974*
1974	1.4%	1.9%	NA	NA
1975	1.5	1.8	+12.5%	+12.5%
1976	1.7	2.4	+41.3	+59
1977	1.9	2.6	+28.2	+103.8
1978	1.8	2.5	+ 7.9	+120
1979	NA	NA	- 9.6	+ 98.7

NA = Data are not available.

* Includes commercial and residential coverages, which includes FAIR Plan homeowners premiums for Massachusetts, Rhode Island, Illinois and Wisconsin

Source: Data for this table were derived from Depopulation Task Force Report (Boston, Mass.: National Committee on Property Insurance, November 1980), Charts I, II and V.

Evidence of the Problem

Several problems with FAIR Plans have been noted above--growing participation rates, coverages and pricing. How will you know if these are problems in your locality? Chances are, if it hasn't come to your attention already, you won't find out unless you consult the state insurance authority or the administrator of the FAIR Plan in your state. The following questions can help you determine whether a problem exists:

- FAIR Plan Participation Rates - Has participation in (and application for) FAIR Plan insurance (or residual lines insurance) increased markedly over the last five years?
- Geographic Concentration - Is FAIR Plan enrollment highly concentrated geographically, i.e., at a neighborhood or sub-neighborhood level?
- Pricing - By what percentage are FAIR Plans priced over conventional plans? If your state does not comply with the Holtzman Amendment (which requires plans to be priced on a par with conventional insurance), are FAIR Plan premiums more than 30 percent above conventional insurance premiums?
- Coverages - What kind of coverages are available under your FAIR Plan--Is homeowners insurance included? Is commercial coverage available? Are premiums payable in installments, or must premiums be paid in full, in advance?

Answers to the above questions may be obtained by telephoning the FAIR Plan administrator, the state insurance authority, or the National Committee on Property Insurance (a central clearinghouse for FAIR Plans located in Boston, Massachusetts). The address can be found in Claire Jone's fact sheet on Insurance Trade Associations in Chapter 1.

Remedies Observed or Suggested

Remedies have been proposed at the local level and several have already been implemented. The insurance industry itself has been involved with efforts to "depopulate" FAIR Plans--that is, to reduce the participation in FAIR Plans by increasing the willingness of conventional insurers to write this business at affordable rates.* Many more initiatives can be expected, given increased pressure from consumers and recent Federal Insurance Administration initiatives, including the proposed FAIR Plan depopulation rule.**

Remedies generally fall in two categories:

- Improving FAIR Plan operations and the products they offer to better meet the purpose as an insurer of last resort.
- Depopulating FAIR Plans.

1. Improving FAIR Plan Operations

There are some local or statewide reforms that have been made to FAIR Plans in an attempt to improve the way plans operate; these deserve mention. Reform of the Illinois Plan (Exhibit 10) serves as a model.

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* See National Committee on Property Insurance, Depopulation Task Force Report (Boston, Mass.: NCPI, November 1980).

**The proposed FAIR Plan depopulation rule was published in the July 28, 1980 issue of the Federal Register. It calls for each FAIR Plan to develop and implement a depopulation program under the jurisdiction of the state insurance authority and the Federal Insurance Administration.

EXHIBIT 10

REFORMS TO THE ILLINOIS FAIR PLAN

- Availability of full homeowner's coverage for one and two family owner-occupied dwellings.

- An installment payment plan to replace the previous lump sum prepayment requirement. Homeowners can now pay FAIR Plan premiums in three installments with a small service fee, rather than paying the full year's premium at the beginning. Additionally, the FAIR Plan now provides next-day binding upon receipt of a proper application, instead of the previous 2-3 weeks.

- A comprehensive program of inspections for all new dwelling risks, and for at least one-third of all renewed risks each year to identify and correct hazards, and to avoid writing uninsurable buildings. (The latter is an attempt to reduce possible arson-for-profit on properties insured by the FAIR Plan.)

- An anti-arson program including a reward fund and the refusal to renew coverage on commercial properties for which taxes have gone unpaid.

- Appointment of four public (non-insurance) members to the FAIR Plan Board of Governors, bringing the total Board membership to nine.

- A requirement that insurers and agents sign a statement for each FAIR Plan application that three attempts were made to obtain conventional insurance for the applicant, without success. Additionally, uniform language is to be included in all notices of termination, to make it clear that the FAIR Plan is an insurer of last resort, that the consumer is required to attempt to secure coverage in the conventional market, and that the consumer has the right to shop for insurance.

2. Depopulating FAIR Plans

Approaches to depopulating FAIR Plans vary mainly in the degree to which the effort to depopulate is voluntary. Efforts range from passive consumer education efforts geared at increasing consumer awareness of alternative insurance sources,to credit programs that provide financial incentives to insurers who aggressively place FAIR Plan participants in voluntary insurance plans.

The remedies in this category vary and fall into three subcategories:

- Consumer education
- Voluntary placement or take-out programs, i.e., non-credit programs
- Credit incentive programs

a. Consumer Education. Remedies in this category attempt to achieve depopulation by increasing consumer awareness of alternatives to FAIR Plan insurance. Specifically, consumers are made aware of the problems and limitations of FAIR Plans, and the advantages and ways to access conventional insurance. Usually these efforts are tailored to inform consumers on several issues, of which FAIR Plan depopulation is only one. These programs can be administered in a variety of formats and agency settings.

The potential effectiveness of educational efforts is, however, limited by two factors: 1) degree to which the conventional market provides attractive, available and affordable alternatives to the consumer and 2) consumer inertia. That is, if conventional insurance is significantly more costly, less accessible or less available, and/or consumers fail to pursue alternative insurance sources aggressively, consumer education programs will do little to lower participation in FAIR Plans.

Consumer education programs are treated in greater detail in Chapter 5 of this guidebook.

b. Voluntary Non-Credit Placement Programs. Voluntary placement programs, one form of "keep-out" programs, are designed to reduce participation in FAIR Plans through the establishment of a voluntary placement facility--these programs attempt to reach both consumers and agents. Generally they require greater industry support and participation than consumer education programs.

Specifically, conventional placement programs attempt to "place" FAIR Plan policy renewals and potential FAIR Plan participants with a conventional insurer. Placement programs can be operated in conjunction with a consumer information center, or a separate facility may be created.

Regardless of the set up, a placement facility refers insureds to one of a consortium of cooperating agencies--be they insurance companies, agents, brokers, or trade associations. The placement facility continues to track the prospective buyer, suggesting alternative sources, until a policy with a conventional insurer is written. The success of voluntary placment, as a means of decreasing FAIR Plan participation, depends on the full cooperation of major insurance companies in the area. Two examples are reviewed in detail in Exhibits 12 and 13.

EXHIBIT 11

GEORGIA VOLUNTARY RESIDENTIAL INSURANCE PLACEMENT COMMITTEE

In Georgia, the support of several leading homeowners insurers in the state was rallied in 1978 by the State Commissioner who established a voluntary placement committee.

The committee, called the Voluntary Residential Insurance Placement Committee, is comprised of executives of seven of the largest volume writers of homeowners insurance in the state. When any homeowner(s) in Georgia is refused coverage, or when any policies are cancelled or not renewed, and the homeowner(s) or their agents are unable to obtain insurance with other carriers, they can seek help by dialing a toll-free consumer insurance hotline that puts them in touch with the placement committee. The committee reviews the situation, and if it is determined that the risk has been denied because of the location of the property, the placement committee contacts the insurer and asks it to reconsider. If the carrier decides not to provide coverage, the placement committee assists the consumer (or agent) in obtaining insurance through another source.

In Georgia, a state that had a total of 5,318 FAIR Plan policies in force in June 1980, this approach has worked well. They have reversed the trend of increasing FAIR Plan participation rates, which were rising at about 10-12 percent a year prior to 1978, and have decreased participation rates by about 10 percent since 1978. The success, according to one FAIR Plan administrator, is due in a large part to Georgia's strong Commissioner, to the "good market situation", and "outstanding cooperation of the major insurers in the state."

EXHIBIT 12

CONNECTICUT OPEN LINE PROGRAM

Another example of a voluntary placement program, more formally established and defined than in Georgia, is the Connecticut Open Line Program. This program, initiated in 1978 by Connecticut's Insurance Commissioner, requests, but does not force, every insurer in the state to participate in the placement program. The program works as follows:

- A management committee comprised of representatives of insurers' and agents' associations in the state and an insurance commission staff person operates the program.
- The Open Line Facility, staffed by a team of telephone responders (who, in addition to answering the phones, act as the facilitator for Open Line referrals), receives calls from policyholders and agents who have been denied conventional insurance or who have had policies cancelled or nonrenewed. The telephone recorders obtain a description of the property over the phone; they determine whether the risk is insurable; and if the call is made by a consumer, whether (s)he has an agent. If the property qualifies and the applicant has no agent, (s)he is informed that the application will be referred to a participating insurer, and the insurer or its agent will call the applicant within two working days.
- The case is then referred to a participating company that is chosen on a rotating basis according to its share of homeowners insurance in the Connecticut market. Each participating company appoints an underwriter for the Open Line program, who is the contact and reviewer for all referrals. The company is responsible for issuing a homeowners insurance policy for that referral. When a call to Open Line is made by an agent or producer, the referral is made to the next company on the rotation list that the producer writes for. If the producer or agent does not write for any of the participating companies on the list, the next agency on the list is assigned and the company then requests their producer to call the originating agent to work out a brokerage arrangement.

While this approach appears to work well in Connecticut, its applicability to states with very large urban areas is questionable. Two problems would argue against such a system: one, the sheer volume of calls might require a considerable expenditure of state/local and industry resources; and two, the technical problem of accommodating agents'/brokers' rights to service and place the insurance in a large city that has many agents and brokers needs to be addressed.

c. Credit Incentive Depopulation Programs. Credit programs are the most potent means of depopulating FAIR Plans tried to date. They are, however, the most complicated and costly to administer and must be devised with care.

Credit programs involve functional incentives, or credits in some form to insurers for the single purpose of making voluntary insurance more available in problem areas. Credits typically offset a portion of an insurer's fixed obligation to contribute to the FAIR Plan. For instance, a credit-incentive program may simply credit one dollar of the insurer's FAIR Plan obligation for every (premium) dollar of insurance the insurer writes in a so-called problem area.

Credit/incentive depopulation efforts usually take one of two forms: "keep-out" or take-out" programs. A keep-out program credits an insurer for business it writes voluntarily that would have otherwise been placed in the FAIR market. Take-out programs give credits to insurers that actually seek out FAIR Plan risks and provide them with conventional insurance. Examples of each kind of credit depopulation program are reviewed below:

"Keep-Out" Programs - The Illinois Fair Plan "keep-out" design, formulated by the Illinois Citizens Task Force on Homeowners Insurance Availability recommends a plan with the following elements:

- Keep-Out Zones. The director of insurance would designate as credit-eligible areas those postal ZIP code areas with high concentrations of owner-occupied residential risks (one to four family units) in the FAIR Plan.
- Credit Incentives. All voluntary market companies writing new owner-occupied residential risks in credit eligible areas would receive a reduction of their FAIR Plan subsidy contribution in accordance with a general formula enacted by the legislature with specific parameters designated by the director of insurance.

- Flexibility and Gradualism. The program should allow for the maximum exercise of judgement on the part of the director of insurance and should be gradually implemented with respect to the percentage of subsidy liability that can be alleviated through keep-out activities for each company.

In addition, a "diligent effort" requirement might be considered for inclusion in the legislation. The requirements under consideration are:

- The department of insurance should prohibit any writing of FAIR Plan business of non-resident agents, since non-residency is clearly not conducive to the objective of encouraging shopping by the consumer and the expansion of market alternatives.

- The role of producers affiliated with financial institutions, such as savings and loans and mortgage bankers should be closely examined to determine whether some such institutions are engaged in practices that systematically restrict availability. The department of insurance should determine if limitations should be placed on such institutions.

- Savings and loan institutions and mortgage houses should be required by legislation to provide the mortgagee with a copy of the mortgage inspection in order to make insurance shopping easier for the mortgagee. Insurers and financial institutions should develop cooperative programs that permit binding of a homeowners policy on the basis of the mortgage inspection, provided that the amount of insurance requested is adequate. Any home for which a mortgage is being granted is in all likelihood a good insurance risk.

- The role of agents associated with insurers by direct employment or exclusive contract, or agents with limited markets should be examined to determine if there should be limitations in their ability to produce FAIR Plan business to the extent that policyholders cancelled or non-renewed by the company are effectively discouraged from shopping in the voluntary market.

The Illinois Keep-Out Program, which was eventually adopted in part, addresses a basic problem with the way FAIR Plans operate: namely, the more property insurance an insurer writes in the state, the greater its FAIR Plan assessment. To counter this built-in "incentive" to write FAIR Plan policies, the Illinois program exempts business written in designated geographic problem areas from the assessment calculation. In addition, the insurer's assessment goes up and down depending on the amount of this business it writes (i.e., a multiplier is built in.)

How successful are attempts to depopulate the FAIR Plan in Illinois? According to the National Training and Information Center, there was a reduction of over 9,000 FAIR Plan policies in Illinois over the last three years. This reduction is attributed in part to the voluntary efforts on the part of the insurance industry and the FAIR Plan facility itself, which sent out letters to every FAIR Plan participant informing them that other insurance alternatives exist and may be available to them. In addition, every time a FAIR Plan policy is written in the state, the agent must swear that he or she attempted to place the risk with three conventional companies before resorting to the FAIR Plan.

"Take-Out" Programs - As described above, take-out programs are designed to reward insurers for risks that are removed from the FAIR Plan. An example is the take-out program implemented in New York. This program had been designed to credit insurers on a 2 for 1 basis; i.e., for every dollar of premium taken out of the FAIR Plan, the insurer's premiums subject to assessment were reduced by two dollars. The program, while successful in establishing an incentive for decreasing FAIR Plan participation, had the unintended consequence of raising rates for policyholders who remained in the plan. Thus, taking out the good risks resulted in unreasonable rate increases for those who remained in the plan. (The effect was particularly severe for commercial insurance.) The program is no longer in force.

One problem alluded to earlier that works against the success of a "take-out" depopulation plan is that the price of the FAIR Plan policy appears lower to the consumer than the conventional insurance (mainly because of the lesser coverage offered by the FAIR Plan). Since service and coverage are secondary concerns to many customers, particularly those on fixed incomes, it may be difficult to persuade FAIR Plan participants to leave the FAIR Plan for conventional insurance.

Recent demonstrations to "depopulate" FAIR Plans through take-out procedures bear this point out. Interviews with agents in Baltimore, where the FAIR Plan (called the Joint Insurance Association, or JIA) is providing independent agents with the names, addresses and telephone numbers of owner-occupied residential properties enrolled in the FAIR Plan, inspection reports, the policies themselves, and photographs of the properties revealed that many policyholders could not be convinced to leave the FAIR Plan even when they were offered better, conventional insurance. The reason: FAIR Plan insurance premiums were cheaper than all others, although the coverage was less adequate.

One independent agent in Baltimore described her experience with the depopulation effort. She received 40 applications from JIA. Five of the applications were for properties that were in such poor condition that conventional insurance was not available, and out of the remaining 35, she placed 11 policies. All 35, she maintained, could have been written by conventional insurers, but the policyholders were unable or unwilling to move from the FAIR Plan. Many, she noted, were elderly or on fixed incomes.

Strategies for Local Government Intervention

In the area of FAIR Plan reform, local government has had almost no role. By definition, FAIR Plans are creatures of the state and the power to reform lies in the hands of the state. Thus, while FAIR Plan reforms receive considerable attention from the insurance industry, consumers and state insurance commissions, and recently from the Federal government, reform must necessarily come from the state.

Local government's role in this area, then, may be one of identifying the problem, assembling the necessary data, and bringing the problem to the attention of the state insurance commission. The importance of this role should be underscored for two reasons: 1) the state commissioner may not be located in your city and thus may not be aware of a problem in your locality, and 2) every state FAIR Plan situation is different and requires individual attention. No canned reform will do, as the New York City take-out plan plainly shows.

The city may have to play an aggressive role in identifying realistic alternatives that suit the local situation.

Insurance companies could help ....if they spelled out risk factors and told homeowners, in advance, what they look at.

Allen Neman, a landlord in Seattle, Washington, Seattle Post-Intelligencer, February 26, 1978

5

Meeting Consumer Information Needs

Summary

- As with the purchase of any product or service, a consumer will be able to make a more intelligent choice if (s)he understands the product and the choices or alternatives that are available.

- Many consumers are not well informed about how to shop for insurance, and how to resolve problems or complaints with their insurance policies.

- Two indications that an insurance-related information problem exists in your jurisdiction are: 1) the number of complaints or questions regarding insurance that are received by local agencies is too great or too complex to handle; 2) an absence of insurance information resources.

- A number of initiatives have been taken by state governments, the insurance industry and local groups to aid consumers. These include: information centers, as in Milwaukee; hotlines, as in Philadelphia; consumer guidebooks; special services through NHS (Neighborhood Housing Services), as in Chicago; and others.

- Local government could, conceivably, assume a direct role in providing information to consumers on insurance. However, a more efficient way for local government to address this problem is to encourage and assist state agencies and local insurance companies to expand and improve their consumer information programs.

Evidence of the Problem

Current research suggests that consumers are not adequately informed on how to shop for insurance and have difficulty resolving problems with their policies. Specifically, they are unfamiliar with the ingredients of policies, they fail to compare policy coverages, prices and agency or company reputation, and they frequently are placed in FAIR Plans without exploring alternative companies. Often, consumers accept coverage at a higher price than other available policies simply because they are unaware of the options open to them. Also, beyond obvious measures of redress with the producer of insurance, consumers frequently do not know what steps to take to resolve problems with their policies or insurance companies.

In many cities there are few places the consumer can go for information about insurance without being sold a policy! While the state insurance department is in almost all states the agency responsible for insurance-related consumer protection, a recent study of 46 state insurance departments by the U.S. Comptroller General reports that these agencies are deficient in protecting and responding to consumer interests.

The study results, derived from a survey of all the state insurance departments in the country, indicate that with respect to consumer needs:

- *Most states do not have direct authority to resolve consumer complaints or claims* (only 6 out of 46 departments have complete authority to order companies to pay or increase payment of claims in disputed cases).*
- While many states provide information to consumers about relevant state insurance statutes and regulations, *"generally, insurance departments could not assist consumers who had complaints regarding questions of fact or who misunderstood their insurance policies."***
- *States have not adopted a national complaint coding system* that would provide valuable data to consumers, insurance regulatory agencies, and the insurance industry itself.***

In addition, relatively few cities benefit from proximity to their state insurance department office. Except in rare cases where special efforts to address consumer needs have been organized--such as in Pennsylvania where the state insurance commissioner opened satellite insurance offices throughout the state--consumers have only the insurance companies readily accessible to them for information. In places where insurance availability is a problem (and where insurance companies and agents may contribute to the problem), the private sector alone cannot satisfy consumer needs; a consumer information service may be necessary.

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[*] U. S. Comptroller General, *Issues and Needed Improvements in State Regulation of the Insurance Business* (Washington, D.C.: U.S. General Accounting Office, October 9, 1979), p. 49.

[**] *Ibid.*, p. 45.

[***] *Ibid.*, p. 43.

How do you know if consumer information needs are not being adequately addressed in your jurisdiction? Simple evidence, such as an unusual amount of insurance complaints or questions that are addressed inappropriately to various local and state offices and/or the lack of an obvious source of consumer information on insurance, may be sufficient to determine that a need to improve insurance information exists.

Remedies Observed or Suggested

A variety of consumer information programs have been developed over the past few years. The approaches differ widely, but appear to fall into two general categories:

- Consumer information delivered actively through a fully functioning information center, such as walk-in centers or hotlines.
- Consumer information delivered passively through literature (e.g., insurance shopping guides), targeted at raising the awareness of specific audiences, such as local officials, consumer organizations, or the media.

Both approaches have been used by public and private sectors alike with varying degrees of success. Examples that fall into each category are described below.

1. "Active" Consumer Information Programs

There are almost unlimited possibilities for meeting consumer information needs. Information centers per se can take the form of established walk-in centers or operate through telephone hotlines (a hotline example is discussed in Exhibit 14), or they may be implemented and staffed by the insurance industry, supported through industry donations, as in the case of the Milwaukee Community Insurance Information Center (Exhibit 15).

EXHIBIT 13

PENNSYLVANIA INSURANCE HOTLINE

The Insurance Federation of Pennsylvania, an organization representing many factions of the insurance industry and insurance companies in Pennsylvania, implemented a consumer information program called the Insurance Consumer Information Service (ICIS) in 1971.

ICIS is staffed by two full-time service representatives who receive and process incoming telephone inquiries relating to every facet of insurance. There are two toll-free WATS lines, two statewide toll-free incoming lines, and one Philadelphia line. Altogether ICIS handles about 1,400 calls per month. More than 13,000 calls were received during 1979-80. ICIS reports that 55 percent of the calls involve automobile insurance; 16 percent life insurance; 14 percent health insurance; and miscellaneous lines, including homeowner, comprising the remaining 15 percent.

ICIS's role is primarily as an intermediary between insurer and consumer. The staff has a rapport with the major insurers in the state. Staff is able to present a problem to the insurer based on information received from the consumer over the phone. The turn-around time back to the consumer is about a week. ICIS estimates the cost of operating a facility such as this runs about $100,000 per year.

EXHIBIT 14

MILWAUKEE COMMUNITY INSURANCE INFORMATION CENTER

The Community Insurance Information Center was established in 1978 by Robert Doucette, President of Milwaukee Mutual Insurance because it was felt that alleged insurance availability problems were due in a large part to problems in communication between industry and consumer. Doucette believed there was a need to bridge this information gap in Milwaukee.

The Information Center, now operating out of a storefront in a northwest Milwaukee neighborhood, has three functions:

- To tell consumers why and how to purchase insurance to meet the range of individual needs
- To explain why certain actions concerning claims, cancellations, non-renewals, and premiums have been taken by carrier
- To serve as liaison between the consumer and the industry in resolving disputes or misunderstandings.

The center does not sell insurance. It does, however, derive its operating funds from the insurance industry.

The center is staffed by a full-time director who has extensive knowledge of insurance products and how the industry operates. The director is aided by personnel on loan from local insurance companies. The companies agree to serve the center and donate labor (be it that of a rate specialist, attorney, adjuster, etc.) for a period of time, usually several weeks a year, depending on the center's needs and the availability of insurance personnel.

Scenarios, below, illustrate the kinds of problems the center is able to resolve. (The examples, although not typical, are taken from a report on how to set up a consumer information center, prepared by the Woodstock Institute.)

Examples of how the Consumer Insurance Information Center (CIIC) works:

- A retired woman living on Social Security owned a home in need of roof and exterior repair. Due to these deferred maintenance problems, she had been unable to secure insurance in the voluntary market. She asked the CIIC to help her out of the Wisconsin Insurance Plan. CIIC located other agencies in Milwaukee that assisted low-income persons with housing rehabilitation. The roof and exterior were repaired on a sliding-scale basis, and she was then able to secure coverage in the voluntary market.

- A middle-income homeowner received notice of cancellation from his company. He asked CIIC to find out what happened. CIIC was told by the insurer that the cancellation was due to excessive small claims. The insurer also indicated that the risk could be reinstated with a deductible for small claims, which the insured agreed to since it reduced his premium.

- A young woman who had recently moved to Milwaukee wanted to secure a tenant's policy on her apartment. CIIC provided her with the names of three agents in her general area, one of whom obtained the coverage.

The center serves approximately 2,000 persons a year; while it services the entire state, it draws most of its clientele from the immediately surrounding neighborhoods. The initial cost of setting up the neighborhood center was $37,000. This included rent, equipment, furniture and salaries for one year.

Information centers can also be creatures of government, subject to the spirit of the agency, as in the case of the Illinois State Insurance Commission, which operates an aggressive outreach information program. Top administrators of the commission make frequent speaking engagements with neighborhood organizations a part of their job. The department encourages consumers to call them with questions and complaints, and lets it be known through its outreach program that it can and wants to help consumers resolve insurance problems. The program attempts to reach consumers through insurance clinics and weekly visits where department analysts speak to community groups about their specific insurance problems and counsel them on possible remedies.

The Illinois Insurance Department also recently instituted an information service to provide consumers with up-to-date information on rates and coverages for auto and homeowners insurance. Thus, a consumer can call, describe the condition and value of the home, and ascertain price and policy coverages available from various insurance companies.

Information programs may also take the form of partnerships between government, citizens and industry, as in the case of the Neighborhood Housing Service of Chicago, which implemented an Insurance Information and Referral Program (see Exhibit 16). Other methods include the establishment of consumer affairs committees such as those created by the Independent Insurance Agents of America. Here, a committee made up of independent agents, insurance adjusters, real estate agents, church representatives, bankers (and others) was set up in five areas: Buffalo, Dade County, Chicago, Cleveland, and St. Louis. The committees met

EXHIBIT 15

NEIGHBORHOOD HOUSING SERVICES OF CHICAGO

INSURANCE INFORMATION AND REFERRAL PROGRAM

Neighborhood Housing Services of Chicago (NHS), a partnership effort between neighborhood residents, private sector interests, government and 16 leading insurance companies in Chicago, established an insurance information referral program as part of the NHS in 1979.

The program has two services:

- Refers clients to agents.
- Attempts to educate consumers about insurance by addressing the individual consumer's insurance problems, evaluating the adequacy of their needs and the coverages and prices available to them.

The referral service operates in the following manner: Major insurance companies provide NHS with the telephone numbers of agents, all located in the city of Chicago. NHS insurance counsellors (trained by the insurance companies themselves) respond to consumer inquiries and refer consumers to appropriate agents. Implicit in the agreement is to participate in NHS neighborhoods (companies are not expected to modify their underwriting procedures). Information about the NHS service is transmitted to residents through brochures at block club meetings, and via other related NHS activities, such as mortgage counseling.

regularly to address consumers' complaints, raise awareness about local problems, and develop workable solutions.

The area served by an information program may range from city or state to neighborhood-specific. Common among all information programs is the goal to inform the public about insurance products and practices and the implications for the consumer--without trying to sell the consumer a company brand or product.

In sum, active consumer information programs may deliver their services in any or all of the following ways: by telephone, through walk-in centers, through activities of the insurance departments, or through the work of local organizations. They may derive their funds and staff from industry and/or government, and may attempt to reach neighborhood, city or statewide audiences.

2. "Passive" Consumer Information Services

Newspapers, pamphlets and guidebooks are other useful ways to inform consumers about insurance. While no substitute for an active program, consumer information disseminated through printed material can be an effective way to inform the public on such aspects of insurance as price, coverage, and how to organize consumer protection and awareness services.

Printed material on insurance usually takes several forms:

- Guidebooks for organizing information services for consumers
- Insurance "shopping" guides
- Information-for-information's sake, targeted to a specific audience.

A recently developed guide on how to establish a consumer information center developed by Woodstock Institute lays out a solid conceptual and operational framework for an information center. The Guide suggests that a center with a staff of three can be created and made fully operational in its first year for under $70,000 (and less thereafter when office equipment and furniture are deducted). One can obtain a copy of this guide by writing to the Woodstock Institute (see Appendix A - Information Resources, for the address).

Insurance "shopping" guides have been tried in several areas. The New York State Insurance Department, for example, prepares "Consumers Shopping Guides" for homeowner's and life insurance. The guides provide basic information on how to shop for insurance, the kinds of coverages, how to file a claim, and other useful information. Two major drawbacks of shopping guides are that they outdate quickly and are costly to update, and they must be disseminated widely to be effective.

The need to clarify information on insurance has given rise to some efforts by the insurance industry to inform the public and the industry about insurance. For example, Allstate Insurance Company developed a "practical primer" paperback handbook for the news media that is intended to be a helpful source of information about insurance and the insurance business. It covers the essential characteristics of auto, residential and life insurance, as well as background on the industry. It is a quick, handy and informative reference (copies may be obtained by writing the Allstate News Bureau, Allstate Plaza F3, Northbrook, Illinois 60062).

Strategies for Local Government Intervention

Four kinds of consumer information programs were reviewed above:

- Community-based information centers

- Telephone insurance hotlines
- Guidebooks
- State insurance departments activities.

Of these programs, municipal government can, theoretically, undertake all but the last activity alone. Limited city resources and sheer economic efficiency may logically cast local government in the role of facilitator, not implementer/developer, of consumer information programs.

Informed local government officials should, however, try to get someone else to set up a consumer service. Local government can, for example, urge the following organizations to develop a consumer information program if one is needed:

- Neighborhood Housing Services
- State Insurance Department
- Insurance companies.

Although local governments may wish to expand their consumer protection agency's services to include insurance, only as a last resort should the city take it upon itself to set up a new city-run service.

With respect to the last kind of consumer information service, programs and actions of the state insurance department, city officials need to recognize that state insurance departments have the greatest existing potential to serve consumers. However, the task of getting the state to better serve its constituency may rest with city officials.

For instance, the manner in which consumer complaints are handled by the insurance department can impact the service rendered to the consumer far beyond the resolution of individual complaints. As the Comptroller General's report states; "Since most citizens never participate in formal agency hearings or other proceedings, the pattern of citizen complaints usually is the agency's only direct source of information about insurance problems encountered by consumers."* Thus, unless the state effectively gathers data on complaints (and is able to handle complaints) it forfeits a potentially useful tool of regulatory policy, and can ultimately short-change the protection of consumers.

What should city officials request of their state insurance department if consumer needs are being inadequately addressed? Generally, the following options may be requested:

- An effective complaint handling system
- A complaint classification system to collect data on complaints and identify problem companies
- An aggressive consumer outreach program, if needed
- A procedure for making complaint data available to the public on a regular basis.

The latter is a particularly important step. While systematic data can improve the regulatory ability of the department, it can also be a valuable aid to consumers. Both New York and Illinois publish the amount and kind of complaints they receive as part of the information they provide to consumers. Information is disseminated through newspaper and television media. (To eliminate misleading effects of data that might result from large companies receiving more complaints than small companies, a ratio of complaints to unit of premium is used.)

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* Op. cit., p. 46.

While publicizing such information must be presented carefully to avoid confusion, the value to consumers is considerable.

There are serious shortcomings in State laws and regulatory activities with respect to protecting the interests of insurance consumers in the United States.

U.S. Comptroller General's Report to Congress on Issues and Needed Improvements in State Regulation of the Insurance Business, 1979.

6

Addressing Problems with the Law

Summary

- Laws and regulations that control the transaction of insurance and protect insurance consumers are primarily made and enforced by state government insurance commissions or departments.

- Legal and regulatory problems may exist if current laws and regulations are not sufficiently strong in their encouragement of insurance availability and in their protection of consumer interests, or if adequate laws and regulations are not properly enforced by state government.

- Local officials may wish to determine the adequacy of their own state's laws and regulations by comparing them to that of other states with model codes, such as Illinois and Maryland, and to the suggested provisions contained in this chapter. The effectiveness of enforcement should also be examined.

- Some states have initiated changes in the writing and enforcement of insurance laws and regulations, including anti-discriminatory legislation and disclosure laws.

- Local governments could conceivably enact disclosure legislation, but, perhaps more importantly, local governments can compile local data and case studies to support needed reforms at the state level.

- The adequacy of state laws and regulations are the key point of control to area-wide insurance problems.

Evidence of the Problem

There are two aspects of the law that the local official should examine to determine if there is a problem with existing insurance laws and regulations. They are:

- The adequacy of existing laws and regulations

- The adequacy of enforcement

These are addressed below.

1. Adequacy of Existing Laws and Regulations

Urban property insurance laws and regulations emanating from state insurance departments or state and Federal legislatures are intended to provide underwriting guidelines for insurance companies, agents and brokers. They are also intended to protect the insurance consumer from unfair practices on the part of companies, agents and brokers. However, the level of protection offered by existing statutes and regulations varies considerably from state to state. Hence, a fundamental question of concern to local government officials should be: Are residents and businesses in this jurisdiction adequately protected under the law?

It is thus important for local government to know "the law of the land" (and the degree to which the laws are enacted or enforceable) with respect to insurance in their jurisdiction. A few states, including Michigan, Missouri, Illinois and New York, have passed anti-redlining insurance legislation; California and Maryland have had anti-redlining legislation since the early 1970s. Some states, however, have not been as responsive: despite allegations of redlining and other unfair practices, some state insurance departments have failed to investigate problems or collect the necessary data to monitor insurance availability.*

Obtaining information about the state's laws and regulations governing insurance could begin with discussions between a city attorney (or someone else knowledgeable in legal matters), and the state insurance commissioner.

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* U.S. Comptroller General, Issues and Needed Improvements in State Regulation of the Insurance Business (Washington, D.C.: U.S. General Accounting Office, 1979), p. 164.

When a problem is suspected, the basic questions to be asked of the insurance commissioner (and of other knowledgeable sources) are, then: What laws exist, and are they effective? Are consumers sufficiently protected from unfair practices? Does the law prohibit discrimination by geographic area and race? Are consumers adequately protected against unreasonable adverse underwriting decisions in policy cancellations and nonrenewals? When coverage is denied, are individuals told why their applications were rejected? The latter is of particular importance because the denial of insurance now may make it more difficult to get insurance in the future.

Most states have strict laws that protect consumers against unreasonable cancellations; legitimate grounds for cancellation are typically non-payment of premium, fraud or misrepresentations in the application. The amount of notice on cancellations varies from 10 to 90 days

Laws governing nonrenewals provide insurers with fewer restrictions. Findings from the Comptroller General's survey of the law in the 50 states and the District of Columbia is instructive:

- The protection provided by state law is somewhat better in requiring the reasons behind cancellations than non-renewals
    - Sixteen jurisdictions require that the reason for cancellation be provided together with the cancellation notice.
    - Twenty-eight states have the less satisfactory requirement that the reasons for cancellation be given upon the request of the insured.
- Fewer states protect consumers rights with regard to nonrenewal. Fifteen require that the reasons accompany the nonrenewal notice. Fourteen states require that the reasons for nonrenewal be given at the request of the insured. The remaining 21 states and the District of Columbia have no statute stipulating that the reasons for nonrenewal be disclosed (although some insurance companies have on their own begun informing policyholders

and applicants of any reasons for adverse underwriting decisions).*

If a decision is not protected by adequate state regulations, local officials can help facilitate the formulation and passage of new laws in cooperation with other city and state officials. New legislation that has been enacted or suggested include the items in Exhibit 17.

Copies of laws generally perceived as adequate (e.g., Illinois, Michigan, and Missouri) can be obtained from these state legislatures or in any comprehensive law library.

The National Association of Insurance Commissioners (NAIC) Property Insurance Declination, Termination and Disclosure Model Act is reprinted (with permission) in this chapter as Exhibit 18 for the reader's information. This legislative model prohibits discrimination on the basis of race, religion, nationality, ethnic group, age, sex, marital status, or occupation of the (potential) insured, and it provides for an enforcement proceeding. It does not, however, prohibit geographic discrimination, nor does it provide for some of the other items mentioned above.

2. Adequacy of Enforcement

Even though existing legislation in the state may be ideal, enforcement may not. Sources of information on this potential problem are threefold:

- Insurance Commissioner. Local government should make inquiry to the state insurance director or commissioner. (S)he may not wish to admit that enforcement is inadequate, but would probably be willing to discuss the size of the commission's investigatory staff, the length of time it takes to process complaints, and the penalties actually levied against violators of insurance

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* *Op. cit*., p. 162.

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EXHIBIT 16

COMPILATION OF RECENT LEGISLATIVE INITIATIVES AND PROPOSALS ON RESIDENTIAL PROPERTY INSURANCE LEGISLATION

Prohibit nonrenewal or refusal of insurance for reasons of age, race, ancestry, or occupation.

Prohibit refusal to provide homeowner's insurance by reason of geographic location of the risk. (Many states have passed legislation with this provision, including, California, Maryland, Michigan, Missouri and Illinois. Furthermore, the Midwest Advisory Committee to the U.S. Civil Rights Commission developed model legislation in this area.)

Prohibit termination of any policy in the event of termination of an agent who is not able to otherwise place the business to the satisfaction of the consumer.

Require the statement of clear reasons for termination in notices of cancellation and nonrenewal.

Prohibit a refusal to provide homeowner's coverage solely on the basis of a previous refusal or termination by another company.

Require 60-day notice of nonrenewal of homeowner's coverage for policies in force five years or more.

Provide expanded consumer and local government representation on the state insurance commission (the City and County of Los Angeles have advocated for this type of law).

Provide for a required minimum percentage membership of consumer/local government representatives, with no ties to the financial community or insurance industry, on the boards of mutual insurance companies.

Provide for public membership on the FAIR Plan boards of directors.

Provide restrictions on how soon former commissioners can represent, consult for, or accept a position with a local insurance firm. (Testimony by community groups as well as by the Los Angeles County Supervisor at hearings before the U.S. Senate Subcommittee on Citizens and Shareholders Rights and Remedies (January 17 and 18, 1978) expressed this concern.)

Provide for a FAIR Plan, Federal Crime Insurance or equivalent markets of last resort if these are not available.

Provide for maximum FAIR plan rates equal to ISO rates, except when properties are surcharged for legitimate problems of a prespecified nature. (All FAIR plans that comply with Federal specifications have to include this provision to qualify for riot reinsurance. As of March 1980, this provision had not been incorporated by Iowa, Minnesota, New York and Virginia.)

Offer homeowners' insurance through the FAIR Plan.

Provide for the collection or disclosure of insurance policy information on a zip code basis, as is done in the Chicago area.

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EXHIBIT 17

NAIC PROPERTY INSURANCE DECLINATION, TERMINATION AND DISCLOSURE MODEL ACT

PREAMBLE: The purpose of this Act shall be to regulate declinations, cancellations and refusals to renew certain policies of property insurance and for providing specific reasons for such action.

SECTION I: The SCOPE. This Act shall apply to policies of property insurance, other than policies of inland marine insurance and policies of property insurance issued through a residual market mechanism, covering risks to property located in this state which take effect or are renewed after the effective date of this Act and which insure any of the following contingencies:

A. Loss of or damage to real property which consists of not more than four residential units, one of which is the principal place of residence of the named insured, or

B. Loss of or damage to personal property in which the named insured has an insurable interest where:

1. the personal property is used for personal, family or household purposes, and

2. the personal property is within a residential dwelling.

DRAFTING NOTE: Property insurance policies issued through a state FAIR Plan or other residual market mechanism are excluded from this Act because of the special underwriting considerations and regulatory treatment afforded such policies under state law. While the application of many of the substantive principles should be the plan of operation of the state FAIR Plan or residual market mechanism, not a state law governing property insurance declinations and terminations in the voluntary market.

SECTION II: DEFINITIONS.

A. "Renewal" or "to renew" means the issuance and delivery by an insurer at the end of a policy period of a policy superceding a policy previously issued and delivered by the same insurer, or the issuance and delivery of a certificate or notice extending the term of an existing policy beyond its policy period or term. For the purposes of this Act, any policy period or term of less than six months shall be considered a policy period or term of six months and any policy period or term of more than one year or any policy with no fixed expiration date shall be considered a policy period or term of one year.

B. "Nonpayment of premium" means the failure of the named insured to discharge any obligation in connection with the payment of premiums on policies of property insurance subject to this Act. Whether such payments are directly payable to the insurer or its agent or indirectly payable under a premium finance plan or extension of credit. "Nonpayment of premium" shall include the failure to pay dues or fees where payment of such dues or fees is a prerequisite to obtaining or continuing property insurance coverage.

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EXHIBIT 17
(continued)

C. "Termination" means either a cancellation or nonrenewal of property insurance coverage in whole or in part. A cancellation occurs during the policy term. A nonrenewal occurs at the end of the policy term as set forth in subsection A. For purposes of this Act, the transfer of a policyholder between companies within the same insurance group shall be considered a termination, but requiring a reasonable deductible, reasonable changes in the amount of insurance or reasonable reductions in policy limits or coverage shall not be considered a termination if such requirements are directly related to the hazard involved and are made on the renewal date of the policy.

D. "Declination" is the refusal of an insurer, an agent or a broker to issue a property insurance policy on a written nonbinding application or written request for coverage. For the purposes of this Act, the offering of insurance coverage with a company within an insurance group which is different from the company requested on the nonbinding application or written request for coverage or the offering of insurance upon different terms than requested in the nonbinding application or written request for coverage shall be considered a declination.

SECTION III: NOTIFICATION AND REASONS FOR A DECLINATION OR TERMINATION.

A. Upon declining to isure any real or personal property subject to this Act the insurer, agent or broker making such declination shall either provide the insurance applicant with a written explanation of the specific reason(s) for the declination at the time of the declination or advise the applicant that a written explanation of the specific reasons for the declination will be provided within twenty-one (21) days of the timely receipt of the applicant's written request for such an explanation. An applicant's written request shall be timely under this subsection if received within 90 days of the date of notice of the declination. In the event of a declination by an insurer of a risk submitted by an agent or broker on behalf of the applicant, the insurer shall provide the agent or broker with a written explanation of the reason for the declination. In the event the agent or broker is unable to effect insurance for the applicant through an admitted insurer other than a residual market mechanism, the agent or broker shall submit an explanation in writing to the applicant of all insurer declinations. No agent, broker or insurer not represented by an agent or broker shall decline to provide an insurance application form or other means of making a written request for insurance to a prospective applicant who requests insurance coverage from the agent, broker or insurer.

B. A notice of cancellation of property insurance coverage by an insurer shall be in writing, shall be delivered to the named insured or mailed to the named insured at the last known address of the named insured, shall state the effective data of the cancellation and shall be accompanied by a written explanation of the specific reason(s) for the cancellation.

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EXHIBIT 17
(continued)

DRAFTING NOTE: No time period for the effective date of a cancellation is included in this subsection because states may already have time periods specified in their insurance codes. In addition, a legislatively-mandated time period for the effective date of a cancellation would encourage fraud if too long or place undue burden on policyholders if too short. Finding an appropriate balance between these competing considerations is extremely complex. For those states which may desire a specified time period, however, such states may wish to consider that the cancellation of a property insurance policy which occurs within 60 days of the date of issuance be effective 14 days from the receipt of notice of cancellation while the cancellation of a property insurance policy which occurs more than 60 days after the date of issuance be effective 30 days from the receipt of notice of cancellation.

C. At least 30 days before the end of a policy period, as described in subsection II(A) of this Act, an insurer shall deliver or mail to the named insured, at the last known address of the named insured, either of the following:

1. Written notice of the insurer's offer to renew the policy if the applicable premium for the policy is received within a specified billing period, or

2. Written notice of the insurer's intention not to renew the policy upon expiration of the current policy period. The notice of intention not to renew shall include or be accompanied by a written explanation of the insurer's specific reason or reasons for the nonrenewal.

Proof of mailing of either notice shall be retained by the insurer for a period of not less than one year. If the insurer fails to comply with either (1) or (2) above, coverage shall be deemed renewed under the same terms and conditions until the named insured has accepted replacement coverage with another insurer or until the named insured has agreed to the nonrenewal.

SECTION IV: PERMISSIBLE CANCELLATIONS. After coverage has been in effect for more than 60 days or after the effective date of a renewal policy a notice of cancellation shall not be issued unless it is based upon at least one of the following reasons:

A. Nonpayment of premium.

B. Discovery of fraud or material misrepresentation made by or with the knowledge of the named insured in obtaining the policy, continuing the policy, or in presenting a claim under the policy.

C. Discovery of willful or reckless acts or omissions on the part of the named insured which increase any hazard insured against.

D. The occurrence of a change in the risk which substantially increases any hazard insured against after insurance coverage has been issued or renewed.

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EXHIBIT 17
(continued)

E. A violation of any local fire, health, safety, building or construction regulation or ordinance with respect to any insured property or the occupancy thereof which substantially increases any hazard insured against.

F. A determination by the Commissioner of Insurance that the continuation of the policy would place the insurer in violation of the insurance laws of this state.

G. Real property taxes owing on the insured property have been delinquent for two or more years and continue delinquent at the time notice of cancellation is issued.

SECTION V: TERMINATION/DECLINATIONS: DISCRIMINATORY PRACTICES PROHIBITED. The declination or termination of a policy of property insurance subject to this Act by an insurer, agent or broker is prohibited if the declination or termination is:

A. Based upon the race, religion, nationality, ethnic group, age, sex, or marital status of the applicant or named insured.

B. Based solely upon the lawful occupation or profession of the applicant or named insured, except that this provision shall not apply to an insurer, agent or broker which limits it market to one lawful occupation or profession or to several related lawful occupations or professions.

C. Based upon the age or location of the residence of the applicant or named insured unless such decision is for a business prupose which is not a mere pretext for unfair discrimination.

D. Based upon the fact that another insurer previously declined to insure the applicant or terminated an existing policy in which the applicant was the named insured.

E. Based upon the fact that the applicant or named insured previously obtained insurance coverage through a residual market insurance mechanism.

SECTION VI: ENFORCEMENT PROVISIONS.

A. COMPLAINT AND HEARING. Upon a complaint of a person filed within 90 days of any violation of this Act, the Commissioner shall determine whether such complaint is reasonably founded. If the Commissioner determines that such complaint is reasonably founded, or if the Commissioner otherwise has reason to believe that an insurer, agent or broker has engaged in practices which violate this Act and that a proceeding in respect thereto would be in the public interest, the Commissioner shall set a date for a public hearing to determine whether a violation of this Act has in fact occurred. Such hearing shall be held upon no less than 10 days notice to the person charged and the complainant, if any. Such notice shall set forth the specific grounds upon which the complaint is based. If a hearing is based upon a complaint, the hearing shall be set no later than 30 days from the date the complaint was filed. The hearing shall take

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EXHIBIT 17
(continued)

place before a hearing examiner who shall make a record of the evidence and set forth findings and conclusions. Once a prima facie violation of this Act has been established, the person charged in the complaint shall have the burden of showing that such violation was based on a reason not prohibited by this Act. The findings of fact determined by the hearing examiner shall be reviewed by the Commissioner who shall issue a final order. A petition for rehearing may be filed within 30 days of the final order of the Commissioner.

B. SANCTIONS. If the Commissioner determines in a final order that:

1. An insurer has violated sections IV or V of this Act, the Commissioner may require the insurer to:

   a. Accept the application or written request for insurance coverage at a rate and on the same terms and conditions as are available to other risks similarly situated, or

   b. Reinstate insurance coverage to the end of the policy period, or

   c. Continue insurance coverage at a rate and on the same terms and conditions as are available to other risks similarly situated:

2. Any person has violated any provision of this Act, the Commissioner may:

   a. Issue a cease and desist order to restrain such person from engaging in practices which violate this Act, or

   b. Assess a penalty against such person of up to 5500 for each violation of this Act, or

   c. Assess a penalty against such person of up to 55,000 for each willful and knowing violation of the Act.

C. CIVIL LIABILITY AND ACTIONS.

1. If the Commissioner determines in a final order that an insurer has violated sections IV or V or this Act, the applicant or named insured aggrieved by the violation may bring an action in a court of competent jurisdiction in this State to recover from such insurer any loss, not otherwise recovered through insurance, which would have been paid under the insurance coverage that was declined or terminated in violation of this Act.

2. Any amount recovered under subsection (1) above shall not be duplicative of any recovery obtained through the exercise of any other statutory or common law cause of action arising out of the same occurrence. No action under this section shall be brought two years after the date of a final order of the Commissioner finding a violation of section IV or V of this Act.

EXHIBIT 17
(continued)

D. JUDICIAL REVIEW. Any person aggrieved by any determination or order of the Commissioner under this Act may seek judicial review in the _____ court. Failure of the Commissioner to act upon a complaint under this Act within 30 days of the filing of such complaint shall constitute a determination that the complaint was not reasonably founded.

SECTION VII: IMMUNITY.

A. There shall be no liability on the part of and no cause of action shall arise against:

1. The Commissioner of Insurance,

2. Any insurer or its authorized representatives, agents, or employees,

3. Any licensed insurance agent or broker, or

4. Any person furnishing information to an insurer as to reasons for a termination or declination,

for any communication giving notice of or specifying the reasons for a declination or termination or for any statement made in connection with an attempt to discover or verify the existence of conditions which would be a reason for a declination or termination under the Act.

B. Subsection (A) above shall not apply to statements made in bad faith with malice in fact.

SECTION III: EFFECTIVE DATE. This Act shall take effect on _____ .

laws compared to the maximum possible penalties.

- Consumer groups active in insurance matters. They may have actually done studies in enforcement, or they may have impressionistic and anecdotal information of value.
- Local jurisdiction. It could initiate a study of insurance law enforcement adequacy. Such a study could be done by the jurisdiction acting alone, in concert with a few other jurisdictions, through the state league of cities or counties, or through some other public interest group.

Remedies Observed or Suggested

Three remedies are possible for current urban insurance problems:

- Better enforcement of the law
- Changing the law
- State insurance commission initiatives

1. Better Enforcement of the Law

Local government officials can examine existing laws to see if they adequately protect the insurance consumer, using the criteria outlined in Exhibits 18 and 19. If the Federal or state law is viewed as adequate but enforcement is lacking, complaints and suits may be filed to try and achieve compliance. Ohio, for example, has been aggressively pursuing insurance availability problems through its locally funded and well organized Fair Housing Centers. In Toledo, the Fair Housing Center filed an insurance redlining complaint with HUD. In Dayton, the Fair Housing Center filed a suit under the Fair Housing Act. Within the next few years, U. S. Supreme Court is expected to decide whether this Act applies to insurance availability problems.

2. Changing the Law

Local officials may find that existing laws are inadequate and in need of change. The provisions listed above may provide guidelines for possible improvements in the laws and regulations.

Examples of attempts to improve insurance legislation include Michigan, Missouri, Illinois and New York, which have adopted "full disclosure laws." Full disclosure laws require insurers to regularly report their underwriting activities (e.g., cancellations, nonrenewals, etc.) usually by zip code to the state insurance department. The actual data disclosed vary from state to state. For instance, in New York disclosure is required statewide, but for fire insurance only. Data on liability and homeowner's policies are not required. In Illinois disclosure is required for the City of Chicago and East St. Louis only. Full disclosure can be mandated by law or implemented by executive order of the insurance commissioner.

Illinois was the first state to enact full disclosure. Interestingly, the Illinois Director of Insurance used his regulatory powers before the law was enacted to require all insurers with over $1 million in homeowner's and/or fire and extended coverage premiums in Chicago to file quarterly market activity reports with the department.

Illinois issues market reports containing the following information by zip code areas:

- Company policies written
- Industry policies written
- Each company's percentage of the market share
- Company rank
- Industry terminations

In Chicago, where disclosure data are computerized, the National

Training and Information Center takes the computer printout and simplifies the results by reformatting and retabulating the information by neighborhood rather than by zip code. It is then disseminated to community groups in the simple format below.

WHO WRITES HOME INSURANCE IN CANARSIE?

Insurance Company	Number of Policies	% Market Share
Fair Plan		
Willing Insurance Co.		

Although full disclosure legislation is potentially very effective in determining and documenting availability problems, enforcement itself has become a problem in some areas. Community representatives have had difficulty in some places obtaining disclosure data. As with any new system, compliance and ease of access may be a question of time. Also, as with any proposed regulation or requirement, local officials will want to consider the costs and benefits to insurers, regulators and consumers alike, before full disclosure legislation is enacted.

3. State Insurance Commission Initiatives

The state insurance commissioner(s) can influence the regulation of insurance either on an informal level or a formal one. The insurance commission generally has considerable power.

Informally, the commissioner(s) can meet with insurance companies and produce remedies through "jawboning" or directives. Georgia's Insurance Commissioner, for example, is well-known for his success in resolving adequacy and availability complaints on a case-by-case basis. He encourages the submission of complaints to his office, and when the situation warrants it, he contacts the insurance company in question, discusses the problem with company representatives and negotiates a solution. The Commissioner reportedly has a very high success rate using this technique.

Insurance commissions can also be of tremendous help in promoting and passing model legislation. The Illinois State Insurance Department took the lead in developing its comprehensive anti-redlining legislation.

Strategies for Local Government Intervention

As mentioned earlier in this section the local official's role in the legal area is one of determining:

- If anti-redlining laws and regulations exist
- If existing laws are sufficient to protect the consumer
- Appropriate ways to remedy deficiencies, if needed.

The local official can also facilitate passage of new laws by monitoring its path through the legislative maze. Local jurisdictions can take the lead in enacting city ordinances to help regulate insurance. However, workable city ordinances are hard to formulate and none as yet have been passed.

Establishing a rapport with the insurance commissioner can accomplish a great deal of both amassing information and receiving disclosure data. Local officials are probably able to obtain information from insurance companies and insurance commissioners more readily than can community groups. A working relationship with the insurance commissioner can also allow the local official to informally urge the commissioner to use the power of the office to solve problems or enact legislation.

To summarize, local governments may seek to:

- Form alliances on the issue with other jurisdictions, community and consumer groups, and if possible with the state insurance commission. A working relationship with the commission should provide information and may obviate the need for or facilitate successful passage of any further insurance legislation.
- Determine if the implementing regulations and enforcement activities for existing legislation are adequate.
- Study whether state legislative initiatives could more effectively address local problems (note that state legislation rather than local ordinances are recommended, due to the area-wide nature of the problem, and the fact that no workable local ordinances have yet been passed).
- Help pass needed state legislation and monitor its implementation and enforcement.

The very existence of an abandoned house sandwiched between well maintained houses becomes a dagger pointed at all of the adjoining houses. The combination of more costly premiums and the prospect of inadequate recovery in the event of loss can seal the doom of entire blocks of homes and accelerate the vortex of decline and abandonment into which the area is drawn. Thus the prophecy of a deteriorating neighborhood becomes self-fulfilling.

Insurance Crisis in Urban America, U.S. Department of Housing and Urban Development, 1978, p. 41.

7

Reducing Risk

Summary

- As profit-making businesses, insurance companies may have legitimate reasons for not wanting to insure some applicants.

- In cases when the risks are excessive, where obvious hazards prevail (e.g., bad wiring), adequate insurance may be impossible to secure.

- City government can make a direct and valuable contribution to the resolution of insurance problems by reducing or removing hazardous conditions, and upgrading public services in areas where insurance availability is a problem.

- Insurance problems in deteriorating neighborhoods may be aided by collaborative public/private efforts to restore and reinvest in those neighborhoods.

Evidence of the Problem

Insurance companies may be reluctant to insure some applicants. In cases where the risks are particularly high, adequate insurance will be difficult if not impossible to secure.

Hard-to-insure properties may have the following characteristics:

- Obvious fire hazards (inadequate wiring, piles of newspapers and junk, crumbling porches, etc.)

- Location on a street with deteriorating infrastructure and inadequate public services, such as low-water pressure, poor police protection, burnt out streetlights, etc.

Further, properties in disrepair have a lower cash value than similar properties in good condition. Thus, a property in marginally insurable condition may be insured for less than the cost to repair it.

Factors such as these legitimately influence the insurer's decision about whether to write insurance. For example a semi-detached frame home that is situated next to a vandalized shell is considered an unusually high risk. Even if the home is well-maintained, it may be difficult to insure. Such situations also discourage companies from aggressively pursuing business in an area. Claims of redlining, however, are valid only when the insurer disregards factors pertinent to the individual risk. In the example above, the insurability of the property was directly affected by the property's immediate environment; thus charges of redlining here may not hold up. It would be unrealistic to try to force an insurer to write insurance policies for obvious bad risks. However, in this sort of situation, where environmental hazards reduce the insurability of a property, local government and partnerships between government, residents and industry can work successfully to identify and eliminate risks, and to improve the availability of conventional insurance.

Remedies Observed or Suggested

The remedies in this category all address the basic problem of reducing the risk of insurance losses in older urban neighborhoods, losses that could result from environmental hazards. The actions described here were carried out by insurance companies, local government, private citizens and combinations of the three; it is the area in which local government can make its greatest contribution to the resolution of insurance problems. Some of the remedies that have been posited or tried are reviewed below.

1. Collaborative Efforts Between the City, Community Groups and Insurance Companies to Identify and Eliminate Hazardous Conditions.

In New York City, the American Insurance Association gave the local government $500,000 to aid efforts to seal vacant buildings and prevent arson. Collaboration among the public and private sectors to address arson problems sets a good example. For instance, Indiana, Massachusetts and Michigan organized anti-arson investigative task forces to bring together insurance industry representatives, state and local police, fire service officials, community representatives and others to investigate and develop solutions to arson problems. Also, in New Haven, Connecticut, an early warning prevention program was developed to identify arson-prone properties. Funded partially by the Aetna Insurance Company, the program uses indicators drawn from fire, police and insurance files, and mortgage and code enforcement records to identify potential arson hazards.

2. Reinvestment in Neighborhoods

There are numerous recent cases of insurance companies making funds available to responsible community organizations to promote revitalization and repair of urban neighborhoods. Implicit in this activity is the twofold notion that:

- By improving property and eliminating blight in urban neighborhoods, the insurance market in those areas will improve and expand, risks to insurers will decrease, and availability of insurance will improve.
- Insurers who have profited from doing business in these neighborhoods for years have a societal obligation to help those neighborhoods that have fallen into disrepair but seek to rejuvenate.

Reinvestment in neighborhoods has taken many forms. Below are just a few examples of joint industry/community arrangements currently underway.

Aetna is investing over $1 million in revitalization projects in 6 neighborhoods: two in Chicago, and one each in Brooklyn, Bronx, Cleveland and Philadelphia. Neighborhood "Aetna" agents have opened offices in these neighborhoods and companies have made commitments to advertise in local newspapers. In Philadelphia, brochures advertising the neighborhood agent are circulated in two languages. Aetna also granted the National Training and Information Center (NTIC) of Chicago $250,000 to hire and staff the six neighborhood projects and to provide technical assistance to the staff. Typical of the projects underway is one in the Roseland section of Chicago. It contains the following elements:

- Community identification of abandoned homes
- Acquisition/purchase of abandoned property (approximately 10)
- Negotiation of a contract to repair and rehab property
- Loans for rehab and construction funds (Aetna subsidizes the interest rates)

Allstate pledged $1 million to Neighborhood Housing Service (NHS) of Chicago in 1979. Half that sum, $500,000, was invested in a new organization, New Partners, Incorporated, which is rehabilitating multi-family properties in Chicago's NHS neighborhoods. Half the sum was pledged as matching funds. Specifically, Allstate offered to match industry contributions to assist NHS in establishing its program in a sixth neighborhood in Chicago.

3. Unique Coalitions and Programs.

Coalitions among insurers, such as the Philadelphia Insurance Plan, and emerging new local programs, such as the Kansas City Maintenance Reserve Program, exemplify strategies devised at the local level to reduce (or preempt) the risk to insurers.

The Philadelphia Insurance Plan is a special program in which several leading Philadelphia-based insurance companies provide comprehensive homeowners insurance at reasonable costs in inner-city neighborhoods. The Insurance Plan works in tandem with the Philadelphia Mortgage Plan (see exhibit 19).

The Kansas City Maintenance Reserve (MRP) Program is designed to provide low and moderate income homeowners who rehabilitate their homes with sufficient resources to keep their homes in repair. Only homeowners who are recipients of rehab loans from the city are eligible for MRP funds. Participants in the MRP pay $8 a month for the term of their rehab loan. In turn, they are automatically eligible for funds to repair and keep their homes in a condition dictated by local housing codes. This insures the homeowner against faulty construction work (e.g., inadequate/improper wiring, roofing, appliances, etc.) and provides a ready source of funds to maintain the property and protect the initial city rehab loan investment. Both the city rehab loan program and the maintenance reserve program are targetted to deteriorating, disinvested-in neighborhoods. The availability and ease with which maintenance/repair funds are accessed is intended to improve and stabilize the housing stock in the selected neighborhoods over a period of time, and also improve the availability of private investment and insurance funds.

4. Coordination of Insurance Inspection Efforts Between Local Government and the Insurance Industry

Frequently, insurance is denied the homeowner or business because the condition of the property is viewed by the insurer as an excessive risk. Sometimes, upgrading the property to meet the insurer's writing criteria may merely require removing junk and newspapers from the porch or repairing the stairs. Often, uninsurable properties also fail to meet local housing and zoning codes.

This commonality introduces an opportunity for local government to improve the availability of insurance by linking housing code inspections with insurance inspections. If, for instance, local government could work with the major insurers in an area to establish common inspection criteria that satisfy both local housing codes and insurance underwriting standards, local government could, as part of its routine functions, simultaneously certify properties for insurance and housing code compliance. Such a system could provide a greater opportunity to inform property owners about the insurability of their property. Also it might sensitize city government to the barriers the city creates to insurability.

To promote this type of program, local government, with the assistance of major insurance companies and agents, might attempt to "certify and inspect" certain neighborhoods. This could be a genuine first step in dispelling preconceived notions about the property risks

EXHIBIT 18

PHILADELPHIA INSURANCE PLAN

The Philadelphia Insurance Plan was instituted by the Greater Philadelphia Partnership, a coalition of community corporate leaders formed in the 1950s. The Partnership gave rise to the Philadelphia Mortgage Plan about four years ago in an effort by a consortium of banks to make home mortgage money available in the inner city.

The Insurance Plan is an effort to offer homeowners more comprehensive coverage at reasonable costs. It works in tandem with the Mortgage Plan. Three Philadelphia-based insurance companies participate and underwrite homeowner's policies for new mortgages obtained through the Mortgage Plan.

While the program has potential, it has had trouble "getting off the ground." Its biggest drawback is that no commissions are offered to the agents who place insurance through the Plan. Although pamphlets about the Plan, along with the names of 27 agents, are displayed at participating banks, this may be too late for potential beneficiaries who have gone to the trouble to get insurance elsewhere. Often insurance is obtained from the real estate agent who negotiated the property transaction.

in an area and improving availability of insurance. (See Exhibit 20 for a modified example of this concept used by GEICO and the Montgomery County, Maryland, Police Department.)

Strategies for Local Government Intervention

As mentioned earlier in this section, risk reduction is the area in which local government may have its most decisive role in improving the provision of essential property insurance. This

EXHIBIT 19

BURGLARY PREVENTION/INSPECTION AND INSURANCE DISCOUNT PROGRAM IN MONTGOMERY COUNTY, MARYLAND

Program Goal: To reduce crime and burglary in Montgomery County and at the same time lower the cost of crime and theft insurance to residents.

Through a unique arrangement between GEICO (Government Employees Insurance Company) and Montgomery County Police Department, homeowners and renters are eligible for a discount on burglary and theft coverage if they comply with certain anti-burglary safeguards. These preventive measures are part of the program developed by Montgomery County Police Department. GEICO supports the program by giving discounts up to 25 percent of basic premiums to its customers after their homes pass inspections by the crime prevention officers.

To pass inspection, a property must meet basic security requirements that will act as effective deterrents to burglary. Exhaustive and expensive security systems are not required. Rather, minimum requirements such as deadbolt locks on doors, locks on windows and garages, and adequate lighting are required. (A survey of program participants conducted by the police department found the average cost to upgrade property to specifications was $123/home.)

If the property meets the inspection requirements, the applicant receives a written letter of compliance for the insurance discount and a "shield of confidence" window sticker (another possible deterrent to crime). If the property does not qualify, the applicant is advised verbally and in writing of what needs to be done to improve the security of the premises. Another inspection can be required once all corrections have been made.

The program got its start through a grant from the U.S. Law Enforcement Assistance Administration (LEAA) and the determined efforts of a few police department and insurance personnel to cut crime and lower insurance costs. Due to dwindling LEAA funds, the future of the program may be in jeopardy. Inspection costs, no longer offset by Federal subsidy, are absorbed by the police department.

in the problem area that permits local government to "do the kinds of things that it does best," namely:

- Eliminating blight
- Making physical improvements to upgrade the quality of the environment
- Developing and enforcing residential and commercial building codes
- Triggering reinvestment in urban neighborhoods.

Local government can undertake many activities to improve the availability of insurance in urban neighborhoods. Activities may be as simple as cracking down on housing and commercial code violations or as advanced as working with insurance companies to develop mutually agreeable underwriting criteria that allow for the coordination of local government inspections and the provision of insurance.

The activities reviewed in this chapter have two common elements:

- They are intended to reduce risk to the insurer
- They must be widely advertised if they are to have the desired effect of turning around an image of neglect, abandonment and blight.

How can local government reduce risk and improve insurance availability?

- Building partnerships with insurers and residents to identify and eliminate blighting influences
- Targetting investments in neighborhoods to correct hazardous conditions
- Launching an aggessive campaign to enforce building codes in areas where insurance availability is a problem

- Public relations ... turning around the neighborhood's image as a blighted, disinvestment neighborhood.

The last point is particularly important. Much like the reluctance of lenders to make mortgage money available to prospective inner-city homeowners in the early 1970s, today, insurers may be unwilling to provide insurance in urban neighborhoods because they perceive the risks to be great. If the risks are no greater than elsewhere, local government can play a large role in telling them so; if the risks are great, local government can play a dominant role in reducing the risk (through public improvements, housing code enforcement, etc.) and in turning the image of decay and neglect into one more attractive to insurers and investors.

(A) good faith effort is required by insurers, consumers, regulators and all levels of government to define the problems objectively and honestly, consider all viable alternatives and then mount a concerted and cooperative effort to eliminate or at least minimize the problem with benefits for all.

A. A. Kiorpes, Director of
Fire and Allied Lines, GEICO
Washington, D.C.

8

Summary: Appropriate Roles for Local Government

This report attempts to convey several messages to our audience, be they local government officials or others concerned with the availability and accessibility of adequate and affordable insurance in urban areas. They are worth reiterating here:

- Insurance is a complex enterprise—an essentially private sector function regulated by state governments with a limited Federal role in special insurance availability programs (e.g., FAIR Plans with Federal Riot Reinsurance).
- Property and casualty insurance are important matters for public policy concern because they are necessities for today's urban residents and businesses; the availability of insurance is key to the vitality of cities.
- Increasing insurance rates, policy cancellations, refusals to renew policies and alleged redlining are problems about which local governments are receiving an increasing number of complaints and requests for assistance.
- Insurance availability and affordability are essential prerequisites to the achievement of local government goals to stabilize and revitalize urban areas.
- While local governments do not have a direct and formal role in urban insurance matters, there is little doubt that local governments can be key facilitators in resolving urban insurance problems.

Most importantly, we hope this report demonstrates that once a basic understanding of insurance issues is achieved, local governments can take many constructive steps to help resolve urban insurance problems.

There are resources within the city that can be tapped and utilized as tools for implementing resolution of insurance problems. However, local government's role in this arena is, in many ways, an unusual one. Frequently, local government is confronted with a problem about which it is expected to take direct action—repair a roadway, build a new park, develop a social service program, but there are few urban insurance problems that City Hall can resolve by itself. In this field, local government's most effective roles are to draw attention to the problem and to be an advocate, a convener, a facilitator, a prodder, a helper, a collaborator and a partner.

Most city governments, however, do not have the capacity in place to address insurance issues and problems--even as a facilitator, city governments (by and large) are not prepared to deal with urban insurance problems. While community and economic development offices within the city are appropriately concerned, most have not built a response capacity. Conceivably (and depending on the nature of the problem) local government need only appoint a senior level official as the city's liaison on insurance issues. Also, most localities have a "risk manager" or person in charge of purchasing insurance for the city. That person is very knowledgeable about insurance, but usually not so knowledgeable about community development. It may be possible for community and economic development offices to coordinate with and rely on this person for guidance on insurance matters.

Before it can perform in any of these roles, local government needs to understand the nature and extent of any suspected insurance problem. It is essential that local governments proceed on an informed basis, with the facts and data in hand.

As this report suggests, there are a set of important and specific insurance issues that a local government needs to examine in order to determine the existence and extent of urban insurance problems in its jurisdiction. These issues are:

- Ensuring the availability and accessibility of adequate and affordable insurance
- Reforming and improving FAIR Plans
- Meeting consumer information needs
- Seeing that insurance legislation and regulations are effectively enforced
- Reducing legitimate risks and hazards.

These issues and the kinds of questions that need to be raised about each before a problem can be identified and understood by a local government are summarized in Exhibit 21.

A local government that determines the existence of insurance problems in its jurisdiction will need to decide what course of action it wants to follow. This report has described six kinds of local government roles:

- Identifying and bringing attention to insurance problems
- Helping other individuals and organizations address insurance problems
- Working with the state insurance department to address specific city problems
- Encouraging others to take constructive remedial actions
- Forming partnerships and collaborative relationships with public and private sector actors--bringing diverse parties together
- Taking direct local action to minimize legitimate risks in urban areas.

The range of potential roles that local governments can play is summarized in Exhibit 22.

It is important to stress that most of these roles are relatively new for local governments. They are not well established, and few formal evaluations have been performed. Local governments are still learning and still experimenting in this field. It is hoped that this report has demonstrated what can be done at the local level by explaining issues, identifying options and sharing the "best" of the available experience. The contacts and resource materials in Appendices A, B and C should prove useful to the reader in taking advantage of the current state of knowledge in this field.

As a final point, it is also important to stress that, while there are many constructive (and untapped) opportunities to address insurance problems, there are also limitations to what can be done by government and others at the local level. Full resolution of all aspects of urban insurance problems will require expanded efforts by the insurance industry itself, and continued reforms at the state and Federal levels. Only if all the actors in this field--public and private, local, state and national--continue to take positive and progressive actions in concert with each other will complete resolution of urban insurance problems be achieved.

EXHIBIT 20

SUMMARY OF INSURANCE ISSUE AREAS FOR LOCAL GOVERNMENTS TO CONSIDER

AVAILABILITY OF INSURANCE

- Are large numbers of clients covered by surplus lines rather than preferred risk or standard companies?
- Do significant numbers of residents and businesspersons complain about their inability to obtain insurance?
- Is the percentage of urban property owners covered by the FAIR Plan excessive? Is it growing or declining?

ACCESSIBILITY TO INSURANCE

- Are there a reasonable number of agents and brokers serving particular neighborhoods?
- How many major and smaller insurance companies are writing property insurance in a city?
- Are there any special application requirements (e.g., property inspection) in particular sections of the city?

ADEQUACY OF INSURANCE

- Do residents and businesspersons appear satisfied with their insurance coverage?
- What percentage of insurance clients have multiple peril policies?
- How do policy terms split between actual cash value versus replacement-cost only provisions?

AFFORDABILITY OF INSURANCE

- What is the degree of price differential between similar conventional market and FAIR Plan policies? How is the coverage different?
- How do rates compare among different cities within a state when loss differentials are considered?

FAIR PLAN COVERAGE

- Has participation in FAIR Plan increased markedly over the past five years? Is the increase due to added homeowners coverage?
- Is FAIR Plan usage highly concentrated in specific geographic areas of the city?
- What kind of coverages are available under the FAIR Plan?
- How are FAIR Plan premiums paid? In-full and in advance? Installments?

ADEQUACY OF CONSUMER INFORMATION

- What resources are available to consumers when they are shopping for insurance?
- What resources are available to consumers when they have complaints about their insurance policies?
- Are there an abundance of insurance-related complaints or questions being received by agencies of local government?

EFFECTIVENESS OF LEGAL AND REGULATORY ENFORCEMENT

- What are the relevant statutes and regulations in your state?
- Do your current laws prohibit redlining? Adequately protect consumers?
- How well are insurance laws and regulations being enforced? Are there many complaints filed? Is there a backlog of cases?

REDUCTION OF LEGITIMATE RISKS AND HAZARDS

- Are there neighborhoods that contain large numbers of abandoned buildings and visible hazards?
- Similarly, are there neighborhoods with deteriorated public infrastructure and a reputation for inadequate public services?
- What is the level of visible public sector commitment to such neighborhoods?

EXHIBIT 21

SUMMARY OF POTENTIAL ROLES FOR LOCAL GOVERNMENT IN ADDRESSING URBAN INSURANCE PROBLEMS

BRING ATTENTION TO A PROBLEM

- Conduct a formal study of insurance adequacy in selected urban neighborhoods.
- Issue a press release from the Mayor's office expressing concern about insurance issues, backed up by local data.
- Call a public hearing to collect information on insurance issues.
- Collect information on insurance affordability and availability under HUD's HAP planning process.
- Enact a local ordinance requiring disclosure of insurance activity in the city.

HELP OTHERS TO ADDRESS A PROBLEM

- Provide technical assistance, city government data or free office space to a community organization.
- Offer to mediate between a local group and an insurance company.
- Provide basic insurance information to individual consumers and businesspersons.
- Provide technical assistance to homeowners and small businessowners on risk management.

ENCOURAGE OTHERS TO ACT CONSTRUCTIVELY

- Do outreach to major insurance carriers in a city to get them to offer "new" insurance products there.
- Encourage the state insurance commission to facilitate the sale of such new urban-oriented policies.
- Provide information and testimony on insurance problems to state legislatures and insurance commissions.
- Support the enactment of anti-redlining disclosure laws.
- File an anti-discrimination suit under local fair housing law.

COLLABORATE WITH OTHERS TO SOLVE A PROBLEM

- Work with insurance industry to identify perceived risks and problem areas in the city.
- Convene public and private meetings of key public and private representatives on local insurance issues.
- Take the initiative on forming a local arson task force.
- Expand the program of local NHS efforts, if one exists, to cover insurance issues.
- Develop formal partnerships with local insurance companies and financial institutions.
- Participate on a local consumer information task force.

TAKE DIRECT ACTION TO REDUCE RISK

- Upgrade city services as needed in neighborhoods experiencing insurance problems.
- Expand local efforts to remove hazardous conditions, such as abandoned structures.
- Coordinate building inspections with community organizations and insurance companies.
- Expand code enforcement efforts in target neighborhoods.

Appendixes

APPENDIX A

INFORMATION RESOURCES AND BIBLIOGRAPHY

INFORMATION RESOURCES

Insurance Industry

Alliance of American Insurers
20 N. Wacker Drive
Chicago, Illinois 60606
312 / 558-3700

American Institute for Property
and Liability Underwriters, Inc.
Providence & Sugartown Roads
Malvern, Pennsylvania 19355
215/644-2100

American Insurance Association
85 John Street
New York, New York 10038
212/433-4400

Lynda Gilliam
Assistant Deputy Director
Illinois Department of Insurance
1160 N. La Salle Street
Chicago, Illinois 60601
312/793-2420

Independent Insurance Agents
of America, Inc.
85 John Street
New York, New York 10038
212/285-4250

Insurance Information Institute
110 William Street
New York, New York 10038
212/233-7650

Insurance Institute of America, Inc.
Providence & Sugartown Roads
Malvern, Pennsylvania 19355
215/644-2100

Insurance Services Office
160 Water Street
New York, New York 10038
212/487-5000

National Association of
Casualty & Surety Agents
5225 Wisconsin Avenue, N.W.
Washington, D.C. 20015
202/362-0101

National Association of
Casualty & Surety Executives
5225 Wisconsin Avenue, N.W.
Washington, D.C. 20015
202/362-0101

National Association of
Independent Insurers
2600 River Road
Des Plaines, Illinois 60018
312/297-7800

National Association of
Insurance Brokers
111 John Street, Suite 2700
New York, New York 10038
212/962-5630

National Association of
Insurance Commissioners
633 W. Wisconsin
Milwaukee, Wisconsin 53202
414/271-4464

National Association of
Insurance Women
1847 E. 15th Street
Tulsa, Oklahoma 74104
918/932-5195

National Association of Mutual
Insurance Companies
7931 Castleway Drive
Indianapolis, Indiana 46250

National Association of Professional
Insurance Agents
400 N. Washington
Alexandria, Virginia 22314
703/836-9340

National Committee on Property
Insurance
55 Court Street
Boston, Massachusetts 02108
617/367-5912

Insurance Industry (continued)

Property Casualty Insurance Council
First National Bank Plaza
Suite 3960
Chicago, Illinois 60603
312/236-7124

Risk and Insurance Management Society, Inc.
205 E. 42nd Street
New York, New York 10017
212/557-3210

Surety Association of America
100 Wood Avenue South
Iselin, New Jersey 08830
201/494-7600

Federal Officials

Federal Emergency Management Agency
Federal Insurance Administration
500 C Street, S.W.
Washington, D.C. 20472
202/287-0750

Neighborhood Reinvestment Corporation
700 G Street, N.W.
Washington, D.C. 20552
202/377-6815

Jane Karadbil
Office of Policy Development and Research
U.S. Department of Housing and Urban Development
451 7th Street, S.W., Room 8106
Washington, D.C. 20410
202/755-5537

Other Contacts

Robert Gray
Buffalo Independent Agents Consumers Group
c/o B.W. Morris and Sons, Inc.
4 Cazenovia Street
Buffalo, New York 14220
716/825-0600

Cleveland Action Committee
c/o Insurance Board of Greater Cleveland
1830 Williamson Building
Cleveland, Ohio 44114
216/241-5717

Conference of Insurance Legislators
P.O. Box 17805
Milwaukee, Wisconsin 53217
414/332-0330

Antoinette M. Harris
Philadelphia Insurance Plan
c/o Greater Philadelphia Partnership
900 Western Savings Building
Broad & Chestnut Streets
Philadelphia, Pennsylvania 19107
215/545-4858

Other Contacts (continued)

Dr. Ted Miller
The Granville Corporation
1133 15th Street, N.W.
Washington, D.C 20005
202/638-4550

Institute for Local Self Government
Claremont Hotel Building
Berkeley, California 94715
415/341-4044

Midwest Advisory Committee to
the U.S. Civil Rights Commission
Federal Building
Chicago, Illinois 60604

James S. Owens, Director
Milwaukee Community Insurance
Information Center
3428 W. North Avenue
Milwaukee, Wisconsin 53208
414/447-1100

Richard Radcliffe
Missouri Acorn
3177 S. Grand Street
St. Louis, Missouri 63118
314/865-3833

National Training and Information
Center
1123 W. Washington Boulevard
Chicago, Illinois 60607
312/243-3035

New York Public Interest
Research Group
5 Beekman Place
New York, New York 10038
212/243-3035

Ohio Training Center
1027 Superior
Cleveland, Ohio 44114

Oregon Fair Share
2926 N. Williams
Portland, Oregon 97227

Peoples Housing Network
617 Park Avenue
Syracuse, New York 13204

Carol Shapiro
Public Technology, Inc.
1301 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
202/626-2400

Costis Toregas
Vice President
Public Technology, Inc.
1301 Pennslyvania Ave., N.W.
Washington, D.C. 20004
202/626-2400

Woodstock Institute
410 N. Michigan Avenue
Chicago, Illinois 60611
312/644-4469

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Insurance Crisis in Urban America (Washington, D. C.: Government Printing Office, May 1978).

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National Training and Information Center, Conference Report: Insurance Redlining and Reinvestment: Directions For Change. Conference sponsored by NTIC and the Illinois Advisory Committee to the U.S. Civil Rights Commission, March 22 and 23, 1979 (Chicago, Ill.: NTIC, 1979).

Insurance Redlining: Profits vs. Policyholders (Chicago, Ill.: NTIC, 1978).

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The Impact of Insurance Industry Practices on Urban Areas. An Urban Consortium Information Bulletin (Washington, D.C.: Urban Consortium, 1980).

Swift, Larry D., *Insurance Costs and Availability Problems for Inner-City Retailers* (Chicago, Ill.: Woodstock Institute, May 1980).

U.S. Civil Rights Commission, *Insurance Redlining: Fact Not Fiction* (Washington, D.C.: Government Printing Office, 1979).

U.S. Comptroller General, *Issues and Needed Improvements in State Regulation of the Insurance Business* (Washington, D.C.: U.S. General Accounting Office, October 1979).

U.S. Senate Committee on the Judiciary, *Rights and Remedies of Insurance Policyholders*. Hearings before the Subcommittee on Citizens and Share-Holders Rights, Parts 1 and 2 (Washington, D.C.: Government Printing Office, 1978).

Valukas, Anton R. and Bollow, Richard C., *An Investigation of Discrimination in the Sale of Homeowners Insurance in Illinois* (Chicago: Illinois Department of Insurance, September 1977).

Vaughan, Emmett J. and Elliot, Curtis M., *Fundamentals of Risk and Insurance*, 2nd Ed. (New York: John Wiley & Sons, 1978).

APPENDIX B

SAMPLE SURVEY INSTRUMENTS

- Northwest Business Council (Detroit, Michigan), Neighborhood Services Council business Insurance Questionnaire.
- Federal Insurance Administration household and business interview instrument.

NEIGHORHOOD SERVICE ORGANIZATION
BUSINESS INSURANCE QUESTIONNAIRE

Fill in the following:

Name of Business: ______________________________

Address: ______________________________

Telephone: ______________________________

Nature of Business: ______________________________

Name & Position of Person Interviewed: ______________________________

____

Person Conducting Interview: ______________________________

1. How long have you been in business at your current address?

   a. less than 1 year _____
   b. 1 to 5 years _____
   c. 6 to 10 years _____
   d. 10 to 15 years _____
   e. 16 to 20 years _____
   f. 21 years or more _____

2. Do you own __________ or rent __________ the building in which business is located? Rent part of the building in which business is located? ________

3. Is your business insured? Yes _____ No _____

4. Do you have insurance for Building? _______ Contents? ______ Both? _______

Most people get their insurance through an insurance agency. An agency and a company are often not the same. An agent can sell insurance with a number of companies with whom he or she does business just like a travel agent sells tickets for different airlines. It is important to know both your agent and your company. You should check your policy for this information if you are not sure.

5. What is the name of your insurance agent? (Specify__________
____

6. With what insurance company is your business insured?
(Specify)____

7. Businessowners insurance is a special type of policy that includes all basic coverage such as fire, vandalism, theft and liability. Do you know if you have this kind of policy? You can check your policy if you're not sure. Yes____ No ____

8. Just to double check, can you tell me which kind of insurance policy you have:
Fire ______
Extended Coverage ________
Liability ________
Vandalism & Malicious Mischief _______
Loss of Income Coverage ________
Theft _______
Glass Breakage _______
Inland Marine ________
(Accounts Receivable)

9. Has the insurance on your business ever been cancelled in the middle of the policy? Give the year(s) ________.
Yes ________ No ________

10. Has your insurance ever been not renewed when it has been up for renewal? Give the year or years ________.
Yes ________ No ________

11. Have you ever been refused coverage on your business when you applied for it? Give the year or years _________.
Yes ________ No ________
If you have not been cancelled, not renewed or refused coverage we will skip some of the questions (go on to questions 16 thru 23).

12. List the names of companies and agents that refused or cancelled or non-renewed your coverage.

AGENT	COMPANY	ADDRESS	PHONE

13. Can you tell me if any of the following were given by the agents or company as reasons for cancellation, non-renewal or refusal.

a. Company does not insure in: Detroit ______
Your area ________ Your zip code ______
b. Condition of neighborhood ________
c. Condition of business ________
d. Too many claims ________ f. Other ______________
e. High crime area ________ g. No reason ___________

14. When you were refused, cancelled or non-renewed, did the company or agency inform you that you might get coverage through the Michigan Basic Property Insurance Association, also known as the FAIR plan or the "pool"?

15. Do you know what the Michigan Basic Property Insurance Association is?

Yes ________ No ________

16. A Dunn & Bradstreet report is often requested by insurance companies. This report involves a physical inspection of your business as well as some questions about your finances. Do you know if a Dunn & Bradstreet report was done on your business?

Yes ________ No ________

17. How many claims have insurance companies actually paid to your current business within the last five (5) years?

a. None __________
b. One (1) _______
c. Two (2) _______
d. Three (3) ________
e. Four (4) ________
f. Five (5) or more _______

18. Estimate the total monetary amount of claims actually paid to your business in the last five years.

a. None __________
b. 0-$500 ________
c. $500-$1000 _______
d. $1000-$2500 _________
e. $2500-$5000 _________
f. $5000-$10,000 _______
g. $10,000 or more ________ (specify amount)

19. Has anything happened such as a break-in or a fire for which you might have been paid by your insurance company but which you did not report?

Yes _________ No _________

(If answer is no skip to question #23.)

20. If so, how many times?

a. One (1) __________
b. Two (2) __________
c. Three (3) ________
d. Four (4) _________
e. Five or more ________

21. Estimate the monetary amount of losses you decided not to report?

a. 0-$500 __________
b. $500-$1000 _______
c. $1000-$2500 ______
d. $2500-$5000________
e. $5000-$10,000_______
f. $10,000 or more ______ (estimate amount)

22. Which of the following is the reason you decided not to report the loss?

   a. Afraid insurance would be cancelled ________

   b. Afraid rate would go up ________

   c. Didn't want to bother ________

   d. None of the above ________ (Specify reason)____________

   ____

23. May we contact the companies or agents who cancelled, non-renewed or refused you in order to obtain additional information?

   Yes ________ No ________

24. Do you have any documents which talk about problems you've had?

   Yes ________ No ________

   May we make copies and return them? ______________________

REMARKS:

____

____

____

____

____

COMMERCIAL PROPERTY ASSESSMENT CHECKLIST

1. Type of Structure:

   A mixed use storefront; building under six stories _____

   A store in a high rise building ____

   Solely a store _____

   A store in a shopping center _____

   An industrial plant _____

   Other (Describe) ______________________________

2. What is the structure's principal materials?

   Block/Stone/Concrete _____

   Brick _____

   Stucco _____

   Wood _____

   Shingle _____

   Aluminum Siding _____

3. Is the building detached?

   Detached _____ SKIP TO ITEM 6

   Semi detached _____

   Connected to other structures on both sides _____

4. Are the attached buildings?

   Deteriorated/Dilapidated _____

   In need of minor repair _____

   Well maintained _____

   Vacant, but neatly boarded up and not deteriorated/dilapidated _____

5. The attached buildings are:

Both residential _____
Multi-purpose and residential _____
Both multi-purpose _____
Commercial and residential _____
Both commercial _____

6. Condition of the structure:

Deteriorated/Dilapidated _____
In need of minor repair _____
Well maintained _____

7. Presence of litter and/or refuse on the property:

Yes _____
No _____

8. Is the structure and property unkempt?

Yes _____
No _____

9. Are the sidewalks and exterior stairs in reasonably good repair?

Yes _____
No _____

10. Are the first floor windows barred?

Yes _____
No _____

11. When the store is closed, is the store front protected by a metal gate or similar device?

Yes _____
No _____

RECORD ZIP CODE NO. ________________

RESIDENTIAL PROPERTY ASSESSMENT CHECKLIST

1. Type of Structure:

A House ____
A Townhouse or a Rowhouse ____
A High Rise Apt. (over 5 stories) ____
A Garden Apartment ____
An Apt. over a Store ____
A Mobile Home ____

Other (Describe)____________________

2. What is the strucure's principal material?

Brick/Block/Stone/Concrete ____
Wood ____
Shingle ____
Aluminum Siding ____

3. Is the building detached?

Detached ____ SKIP TO ITEM 6
Semi detached ____
Connected to other structures on both sides ____

Are the attached buildings?

Deteriorated/Dilapidated ____
In need of minor repair ____
Well maintained ____
Vacant, but neatly boarded up and not deteriorated/dilapidated ____

5. The attached buildings are:

Both residential ____
Multi-purpose and residential ____
Both multi-purpose ____
Commercial and residential ____
Both commercial ____

6. Condition of the structure:

Deteriorated/Dilapidated ____
In need of minor repair ____
Well maintained ____

7. Presence of litter and/or refuse on the property?

Yes ____
No ____

8. Is the structure and property unkempt?

Yes ____
No ____

9. Are the sidewalks and stairs in reasonably good repair?

Yes ____
No ____

[redacted]

Federal Insurance Administration
Preliminary Household Interview Instrument*

Owner/Renter Insurance Usage Study

1. Do you own or rent your home?

1a. How long have you lived at this address?

2. There are three kinds of insurance I want to ask you about. Fire insurance protects you if fire damages a home you own or your furniture and things. Theft insurance protects you if someone steals something from you. Personal liability insurance protects you if you break something of someone else's or if someone gets hurt while they're visiting you. Some people buy a homeowner's or renter's policy that includes all three types of insurance. Which of these types of insurance, if any, do you presently have?

3. (For each type of policy named in Q. 2, ask:) What company is your ___(TYPE)___ policy with? Now, that's the company, not the agent or broker. (Verify as necessary from a master list of insurance companies.)

If yes to homeowner's insurance, skip to Q. 6.
If no to homeowner's insurance, continue.

4. Have you ever tried to get homeowner's insurance at the place you now live?

5. Did you know about homeowner's insurance or has anyone ever told you about it?

6. Do you remember how you got your insurance policy(ies)? (This refers to any insurance policies the respondent has listed in Q. 3.)

---

* This interview instrument and the attached Private and Commercial Property Assessment Checklists were used to survey owner and renter insurance usage under HUD Contract Number H-2841. More information on the study is in the final report of the study, T. Miller et al., Property Insurance Availability and Use in Four Cities (Washington, D.C.: National Institute for Advanced Studies, January 1978).

7. Did you check around on prices or did you just buy the first insurance that you were offered?

8. Did you get help from any government agency or consumer group in deciding what insurance to buy?

9. Which government agency or consumer group helped you decide what insurance to buy? (If more than one, ask for the agency that provided the most help.)

10. Did you get the kind of insurance policy you wanted?

11. What kind did you want? Was it homeowner's, fire, theft, or liability?

12. Have you ever had trouble obtaining a home mortgage or rehabilitation loan because you couldn't get adequate insurance on the property?

13. Do you get a choice of payment options when you pay your insurance premiums?

14a. During the past five years, have you ever had to apply in person to obtain or renew property insurance at you present address?

14b. During the past five years, did you ever have to pass a property inspection to obtain or renew insurance at your present address?

15. Have you ever tried to get any of these kinds of insurance at the place where you now live?

16. Which of the following types of insurance did you try to get? (Read list.)

Homeowner's
Fire
Theft
Liability

17a. I am going to read you some reasons people give for not having insurance. Please tell me which ones come closest to your reasons.

I decided I didn't need insurance.
No one was willing to sell me insurance.
I couldn't find the coverage I wanted.

Getting insurance was too much trouble.
Insurance would cost more than it's worth.
Insurance would cost more than I can afford.
My policy failed to pay claims the way it should have so I didn't renew.
I couldn't get my coverage renewed.
The price of my coverage was raised too much.
I am in the process of getting insurance.
Other (Specify)

17b. Which one of those reasons is the most important? (Read back circled items in Q. 17a and record primary reason for Q. 17b).

18. Have you ever heard of an insurance plan called a (FAIR plan name)?

19. Did you know that the Federal Government sells crime insurance?

20a. Where you live now, have you ever had a fire, theft, liability, or homeowner's policy canceled?

20b. Where you live now, has an insurance company ever refused to renew a policy?

If yes, continue, otherwise skip to Q. 26.

21a. Which of the following types of policies have you ever had canceled or been refused renewal? (Read list.)

Fire
Theft
Liability
Homeowner's

Ask Q. 21b-21f in series for each type of policy circled "Yes" in Q. 21a.

21b. Have you ever had more than one ____(TYPE)____ policy canceled or refused where you now live?

21C. In what year was your last ____(TYPE)____ policy cancellation or refusal?

21d. Had you filed any claims in the year before this cancellation or refusal?

If "yes" to Homeowner's in Q. 21d, continue. Otherwise skip to Q. 23.

21e. In total, approximately how many claims did you file for the whole time the policy was in effect?

If Q. 21e is "none", skip to next type of policy canceled or refused, or skip to Q. 22, whichever is appropriate.

21f. How many of those claims were paid?

22. If "yes" to Q. 21a and Q. 21d for homeowner's insurance, ask:)

You said you had filed some claims under your homeowner's policy. Were the claims you filed for . . .
Fire
Theft
Liability
Vandalism

If respondent has no insurance, skip to Q. 26.

23. Have you filed any claims under the policy(ies) you now have?

24. In total, how many claims have you filed under the policy(ies) you now have?

24a. Have you changed insurance companies or policy types within the past five years?

If "no" to Q. 24a, skip to Q. 26.

24b. What year was your most recent change?

24c. I am going to read you a list of reasons that some people change their insurance. Please tell which ones come closest to your reasons.

My insurance was canceled or the company refused to renew it.
I renovated or added on to my house.
My insurance agent suggested I change.
My insurance company suggested I change.
Someone approached me and offered a cheaper or better insurance package.
The price of my old policy was raised too high.

[redacted]

My old insurer didn't pay claims properly.
I wasn't getting good service.
Other (Specify)

25a. I am going to read you some reasons people often give for not having insurance. Please tell me which ones come closest to your reasons.

I don't need insurance.
Getting insurance is too much trouble.
I never thought of getting insurance.
Insurance would cost more than it's worth.
Insurance would cost more than I can afford.
I don't believe in insurance.
I know I wouldn't be able to get insurance.
I am in the process of getting insurance.
Other (Specify)

If more than one reason is answered in Q. 25a, ask Q. 25b.

25b. Which one of those reasons is the most important?

26. Now I want to ask you a few questions about car insurance. Does your family have any cars or trucks?

If "none" to Q. 26, skip to Q. 31.

27. Do you have insurance on all of your vehicles, some of your vehicles, or none?

If "none" to Q. 27, Skip to Q. 31.

28. Did you have trouble getting car insurance?

29. Some people get car insurance from the state or are put in what's called an assigned risk plan for their insurance. Is this how you got any of your car insurance?

If "yes" to Q. 29, skip to Q. 31.

30. Some people have to get car insurance from high risk plans that say they will insure anyone who pays enough. Is this how you got any of your car insurance?

If respondent owns home, skip to Q. 33. If respondent rents, continue.

31. You mentioned that your home is rented. Is the residence you now live in . . . (Read list)

A single family home
A townhouse or rowhouse
A high-rise apartment (more than five stories)
A garden apartment (five or less stories)
An apartment in a house
An apartment over a store
A mobile home
A room
Other (Specify)

32. Is your residence public housing, or housing you get for free?

If "yes" to Q. 32, terminate, otherwise skip to Q. 35.

33. You mentioned you own your home. Do you own and live in . . . (Read list)

A house (If "yes" skip to Q. 35)
A townhouse
A high-rise apartment (more than five stories)
A garden apartment (five or less stories)
A mobile home (If "yes" skip to Q. 36)
An apartment over a store

34. Is that a condominium, a co-op, or neither?

35. Finally, so that we can group our answers, would you please tell me into which of the following categories your household income in the preceding year, before taxes? Was it . . . (Read list)

Less than $5,000
$5,000 - $10,000
$10,000 - $20,000
Over $20,000
Don't know
Refused

Terminate Interview

36. Do you have fire or theft insurance or a renter's policy?

37. Is your insurance purchased from (FAIR plan name)?

Thank you for your cooperation.

APPENDIX C

GLOSSARY OF PROPERTY INSURANCE TERMS

GLOSSARY OF INSURANCE TERMS

ACCOMMODATION RISK: Insurance written for an applicant that would normally be rejected by the insurer, but which is provided as a concession to the agency or to a valued insured because of other business with the company.

ACTUAL CASH VALUE: Oversimplified, this is the value after a deduction for depreciation (physical wear and tear). How actual cash value is computed varies by state. In most states it is considered as replacement cost less depreciation.

ACTUARY: Person trained in the mathematics of insurance, such as the calculation of risks, premiums, reserves and other values.

ADDITIONAL LIVING EXPENSE: Insurance that pays the extraordinary expenses involved in living elsewhere during the time when it is impossible to remain in a dwelling that has been damaged by fire or another insured peril. The emphasis is the "necessary increase" and coverage applies for the shorter of two periods:

- The period required with the exercise of due diligence and dispatch to restore the insured property to tenable conditions.
- The period required for the insured and his/her household to settle in any permanent quarters.

ADJUSTER: One who examines a loss and settles the claim. May be a salaried employee of an insurance company or agent, or an independent operator.

ADMITTED ASSETS: Those assets that are considered in measuring the solvency of an insurer.

AGENT: Person authorized to represent and to solicit, negotiate, or sell insurance for an insurance company. An exclusive agent is one who represents only one insurer and may not solicit business for any other insurer at the same time. An independent agent usually represents a number of insurers.

AMERICAN AGENCY SYSTEM: The term applied to the system of insurance marketing in which the agent is an independent business person rather than an employee of the insurance company.

ANTITRUST IMMUNITY: Immunity from Anti-Trust laws. (See McCarran-Ferguson Act definition.)

APPRAISAL: An estimate of value, loss or damage.

APPRAISER: Person who establishes the value of a property. Age physical condition, and neighborhood are critical factors used.

ARBITRATION: The submitting of a matter in dispute to the judgement of a specified number of disinterested persons called "arbitrators," whose decision, called an "award," is binding upon the parties.

BETTERMENT: An improvement that elevates the value of the property more than mere repairs would do.

BLANKET: In property and liability coverage, used to designate insurance that extends to more than one location, or one class of property or one employee.

BOILER OR MACHINERY INSURANCE: Coverage for loss arising out of the operation of pressure, mechanical, and electrical equipment; it may cover loss to the boiler and machinery itself and may include damage done to other property, or injury to other persons (not employees) as well as business interruption losses.

BROKER: Person who represents the insurance buyer, in contrast to the agent who represents the insurance company. The broker's responsibility is to find insurance for his/her clients.

BUREAU: See RATING BUREAU.

BUSINESS INTERRUPTION INSURANCE: Covers continuing expenses and the loss of earnings resulting from the destruction of property; also called "use and occupancy insurance."

BUSINESSOWNERS POLICY: A commercial multiperil policy for small businesses that includes fire, theft and liability insurance. It is similar in content to homeowners insurance. (See the Fact Sheet in Chapter 1.)

CANCELLATION: Termination of an insurance policy before the policy's expiration date.

CAPTIVE AGENT: An agent who, by contract, represents only one company (usually a direct writer insurer) and its affiliates. Synonymous with an exclusive agent.

CASUALITY INSURANCE: Essentially, this is protection against injury to other persons or damage to their property caused by an insured.

CATASTROPHE LOSS: Loss of unusual magnitude.

CLAIM: Demand by the insured for payment of a loss under the insurance contract.

CLAIMANT: Party who has experienced a loss and has filed a claim with the insurer. Claimants can be of two kinds: first party, if the insured is seeking coverage under his own policy; or, third party if the individual is seeking coverage from another's insurance coverage.

CLASS RATING: The grouping of similar exposures into classes.

COINSURANCE: In property and casualty insurance, a rule which states that an insured may not buy an amount of insurance less than a minimum percentage (most commonly 80 percent) of the property value. If someone chooses to buy insurance for a lesser percentage of value, the insurance company will only agree to reimburse a percentage of any loss equal to the percentage of the property's value that the company was asked to insure.

COMMERCIAL INSURANCE POLICY: Insurance contract used in the insuring of business risks. (See the Fact Sheet in Chapter 1.)

COMMERCIAL MULTIPERIL INSURANCE: Comprehensive coverage for businesses that includes fire, theft and liability insurance. Additional specific coverages may be added, including plate glass and business interruption insurance.

COMMISSIONER OF INSURANCE: Title given to the state official whose task is to regulate the insurance business in the state. The commissioner's staff helps enforce the state's insurance laws, approve rates, and examine complaints from the public. Sometimes called Director of Insurance or Superintendent of Insurance.

COMMISSION: Percentage of the premium paid to an agent or broker by an insurer.

COMPARATIVE NEGLIGENCE: A modification of the principle of contributory negligence. In those jurisdictions that follow this principle, negligence on the part of the insured will not necessarily defeat the claim, but will be considered in determining the amount of damages. (See also CONTRIBUTORY NEGIGENCE.)

COMPREHENSIVE; A loosely used term signifying broad or extensive insurance coverage.

COMPREHENSIVE GLASS POLICY: Additional insurance that can be purchased to cover plate glass on a broad all-risk basis.

COMPREHENSIVE PERSONAL LIABILITY INSURANCE: A type of insurance that reimburses the policyholder if (s)he becomes liable to pay money for damage or injury (s)he has caused to others; this insurance does not include automobile liability, but does include almost every activity of the policyholder except business operations.

CONCEALMENT: Failure of an applicant to reveal a fact or condition material to the risk that would affect the validity of a policy of insurance.

CONCURRENT: Covering the same kind of property at the same location under the same terms and conditions, with the same types of coverage, as two or more insurance policies.

CONSEQUENTIAL LOSS: Loss occurring after, and as a result of, some other loss, as in loss of profits resulting from a fire or a loss of frozen foods resulting from electrical failure.

CONSTRUCTIVE TOTAL LOSS: A loss of sufficent amount to make the cost of salvaging or repairing the property equal to or greater than the value of the property when repaired.

CONTRIBUTORY NEGLIGENCE: A situation in which both parties are at least partially careless. Under strict interpretation of the law, even if one of the individual's negligence is very slight compared to the other party, recovery of any damage is barred. (See also comparative negligence.)

CONVENTION BLANK: A report form developed by the National Association of Insurance Commissioners and required by all states, on which insurers file an annual statement of their financial condition with the state regulatory authority.

COVERAGE: Scope of insurance protection provided under a policy.

DAMAGES: The amount claimed or allowed as compensation for injuries sustained or property damaged through the wrongful acts or the negligence of another; an award.

DEDUCTIBLE: Predetermined amount of money that is subtracted from a loss before settlement.

DEPRECIATION: Reduction in property value due to physical wear and tear and obsolescence. Difficult to calculate the dollar amount.

DIRECT LOSS: Loss resulting directly and immediately from the hazard insured against.

DIRECT WRITER: An insurance carrier that deals directly with the insured through a salaried representative, as opposed to those carriers that use agents (also used to refer to carriers that operate through exclusive agents); in reinsurance, the company that originally writes the business.

DOMESTIC COMPANY: A name given to a company in the state of its incorporation.

EARNED PREMIUM: Premium for which protection has been provided. When a premium is paid in advance for a policy period, the company "earns" a portion of that premium only as time elapses during that period.

EFFECTIVE DATE: The date when an insurance policy is put in force.

ENDORSEMENT: A written amendment affecting the declarations, insuring agreements, exclusions, or conditions of an insurance policy; also called a rider.

EXCESS COVERAGE: See UMBRELLA LIABILITY INSURANCE.

EXCESS/SURPLUS LINES COMPANY: Carrier of insurance that offers specialized or additional coverage not readily available in an area or to a certain class of insureds; often not licensed to do business in the state where the risk is located; often not covered by state laws regarding solvency.

EXCLUSION: That which is expressly eliminated from the coverage of an insurance policy.

EXCLUSIVE AGENT: One who solicits, negotiates and sells insurance for one insurance company. Must be licensed by the state in which (s)he does business.

EXPIRATION: The date upon which an insurance policy terminates unless continued or renewed by an additional premium.

EXPOSURE: The risks that an insured is likely to face.

EXTENDED COVERAGE: Coverage added to a basic fire policy for additional perils. For fire policies, extended coverage includes windstorm, hail, explosion, riot, riot attending strike, civil commotion, aircraft, vehicles, and smoke.

FAIR ACCESS TO INSURANCE REQUIREMENTS (FAIR) PLANS: State mandated and regulated insurance programs that offer essential property insurance to individuals and businesses who are unable to obtain coverage through conventional soruces. They are also referred to as involuntary or residual market.

FEDERAL CRIME INSURANCE PROGRAM: A program administered by the Federal Insurance Administration that provides for the sale by local agents and brokers of crime insurance in a state where adequate and affordable crime insurance is not available.

FEDERAL INSURANCE ADMINISTRATION: The government office, which is part of the Federal Emergency Management Agency, that is responsible for the supervision of insurance programs such as Federal Riot Reinsurance, Federal Flood Insurance, and Federal Crime Insurance.

FILE AND USE RATING SYSTEM: Rates that are used immediately by an insurer once they are filed with the state insurance authority. The supervisory authority may later disapprove and rescind the rates. (See the Fact Sheet contained in Chapter 1.)

FIRE INSURANCE: Coverage written for losses caused by fire and lightning, as well as the resultant damage caused by smoke and water.

FLOOD INSURANCE: Coverage against losses due to the temporary inundation of normally dry areas by the overflow of inland and tidal waters and resulting mudslides. This coverage is normally excluded from property insurance policies and is available in flood-prone areas through local agents and brokers from the Federal Insurance Administration. (See also NATIONAL FLOOD INSURANCE PROGRAM.)

HOMEOWNERS INSURANCE: A comprehensive multiperil policy for individual residences, which includes insurance against fire, theft and liability.

IMPROVEMENTS AND BETTERMENT INSURANCE: Insurance that protects a tenant against loss to improvements made by the tenant to property in which (s)he resides.

INDEMNITY: The protection or security against loss or damage.

INDEMNITY, PRINCIPLE OF: A general insurance principle related to insurance which holds that the individual recovering under an insurance policy should be restored to the approximate financial position (s)he was in prior to the loss.

INDEPENDENT ADJUSTER: One who adjusts losses on behalf of companies but is not employed by any one. This individual is paid a fee for each loss adjusted.

INDEPENDENT AGENT: A person operating under the American Agency System, representing several insurers, and dividing the policies (s)he writes among the various companies represented.

INDEPENDENT RATE FILERS: Those insurance companies that choose not to use a rating bureau's rates, and thus file their own rates with the state insurance authority. (See the Fact Sheet beginning on page 16.)

INSPECTION: A check of the premises insured or to be insured.

INSURANCE: Contractual agreement whereby, for a fee, an insurer promises to reimburse the policyholder for losses caused by specific insured perils (e.g., fire, flood, windstorm.)

INSURANCE POOL: Grouping together of several insurers to share the loss of large or hazardous risks.

INSURED: Beneficiary of insurance protection; the party who, under the terms of the policy, is compensated in the event of loss for which coverage has been provided.

INSURER: Party or firm providing financial protection.

INVOLUNTARY INSURANCE MARKET: The state-run or Federally administered insurance programs that provide coverage for high-risk individuals and businesses (e.g., FAIR Plans.)

JOINT INSURED: One of two or more persons whose names or interests are insured under the same or identical contracts.

JUDGMENT RATING: The process of determining the rate for a coverage without the benefit of extensive loss experience or statistical information.

LAPSE: Termination of a policy due to failure by the insured to pay the required premium or to authorize renewal.

LIABILITY INSURANCE: Protection against negligent acts of an individual resulting in injury to another person and/or damage to their property.

LOADING: That part of an insurance rate designed to cover expenses, profits, and a margin contingencies. In some instances, an additional amount added to an insurance rate because of some extraordinary hazard or expense.

LOCAL AGENT: A producer of insurance whose activities are purely of local extent.

LOSS: Injury or damage sustained by the insured, including liability to others caused by negligence.

MCCARRAN-FERGUSON ACT: Congressional Act (Public Law 79-15, 1945) which stipulated that the insurance industry was essentially to be a state-regulated business and not subject to antitrust laws, except that the Federal government could intervene in certain instances. (See the Fact Sheet on Insurance Regulation beginning on page 16.)

MULTIPLE-LINE INSURANCE: A policy that combines many perils previously sold as individual policies by fire and liability companies. The homeowners policy is one example of multiple-lines coverage.

NAMED INSURED: The person designated in the policy as the insured.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS: A national organization of state commissioners who are charged with the regulation of insurance. Although the organization has no official power, it has strong influence through its recommendations.

NATIONAL FLOOD INSURANCE PROGRAM: A Federally-subsidized flood insurance program authorized by the Housing and Urban Development Act of 1968, and administered by the Federal Insurance Administration. (See also FLOOD INSURANCE.)

NEGLIGENCE: Failure to exercise the degree of care that would be expected from a reasonable and prudent person.

NONADMITTED CARRIERS: An insurer not licensed to write insurance in a given jurisdiction.

NON RENEWAL: Decision by the insurer not to continue insurance coverage beyond the end of the policy period.

OPEN COMPETITION SYSTEM: Method of regulating rates whereby the insurance market determines a competitive rate.

PERIL: The event insured against; the cause of possible loss.

PHYSICAL HAZARD: A condition of the subject of insurance that creates or increases the chance of loss, such as structural defects, occupancy, or similar conditions.

PLATE GLASS INSURANCE: See COMPREHENSIVE GLASS POLICY.

POLICY: Insurance contract between an insurance company and an individual or business.

POLICY FEE: An additional charge placed on the initial premium designed to offset a portion of the expense of policy issuance.

POLICY PERIOD: The time period for which insurance remains in force. A policy can also be written for an indefinite period of time.

POOL: See INSURANCE POOL.

PREFERRED RISK COMPANY: An insurance company that underwrites insurance on risks which are perceived to have a low probability of loss. The rates are usually below those of the state's leading rating bureau's rates.

PREMIUM: The payment charged for an insurance policy. (See the Fact Sheet on Setting Premiums and Classifying Risks contained in Chapter 1.)

PRINCIPLE OF INDEMNITY: See INDEMNITY, PRINCIPLE OF

PRIOR APPROVAL SYSTEM: Method of filing rates with the state insurance department wherein companies writing business in the state provide the department with statements on rates and loss figures. The department checks the rates against loss cost figures and either approves or rejects the submitted rates. When approved, the rates then go into use. (See the Fact Sheet contained in Chapter 1.)

PROPERTY INSURANCE: General classification of insurance coverage that protects the insured against financial loss resulting from damage or destruction to the insured property. The field of property insurance is composed of two main branches: fire and marine.

PRO-RATA APPORTIONMENT: A division of loss according to the interest of the various companies providing insurance.

PROVISIONS: The terms or conditions of an insurance policy.

RATE: A charge per unit in determining insurance premiums.

RATING BUREAU: A cooperative organization, which is supported by member insurance companies, that sets the rates companies charge for their policies.

RATING CLASS: Group of risks that reflects similar loss-producing characteristics. Ideally, the class is made up of homogeneous risks based upon elements within the insured's control (i.e., not on territory, age, race, etc.).

RENTAL VALUE INSURANCE: Insurance arranging to pay the reasonable rental value of property that has been rendered untenantable by fire or some other peril insured against, for the period of time required to restore the property to a livable condition.

RENTERS INSURANCE: See TENANTS INSURANCE.

REPAIR COST COVERAGE: Insurance that covers a property at actual market value in the event of a total loss but covers the full repair cost for partial losses, provided that repairs are made with commonly found materials. (See the Fact Sheet in Chapter 1.)

REPLACEMENT COST COVERAGE: Insurance that covers the cost to replace damaged property at current property values. Replacement cost differs from actual cash value in that the replacement cost includes no deduction for depreciation. (See the Fact Sheet in Chapter 1.)

RESIDUAL LINES INSURANCE: Coverages provided by the involuntary market (i.e., state-mandated insurance programs).

RETURN PREMIUM: An amount due the insured upon cancellation of a policy.

RIDER: A document that amends the policy; it may increase or decrease benefits, waive a condition or coverage, or in any other way amend the original contract -- the terms "rider" and "endorsement" can be used interchangeably.

RISK: Chance or probability of loss.

SCHEDULE: A list of coverages or amounts concerning things or persons insured.

SECONDARY COVERAGE: See UMBRELLA LIABILITY INSURANCE.

SETTLEMENT: Compensation for a loss.

SPECIAL MULTIPERIL POLICY: A commercial multiperil policy for large businesses that includes fire, theft and liability insurance.

SPECIFIC INSURANCE: Insurance that applies to one type of property in one location.

SPRINKLER LEAKAGE INSURANCE: Insurance against loss from accidental leakage or discharge from a sprinkler system due to some cause other than a fire or certain other specified causes.

STANDARD INSURANCE COMPANY: One that charges rates for insurance based on the state's leading rating bureau's rates.

SURPLUS LINES INSURANCE COMPANY: One that charges higher rates than standard companies, and specializes in higher risks. Lloyd's of London is an example of a surplus lines company.

TENANTS INSURANCE: Provides fire and theft coverage for the contents and personal belongings of a renter, and includes liability coverage.

TERM: The length of time covered by a policy or a premium.

TITLE INSURANCE: Insurance that indemnifies the owner of real estate in the event that ownership of the property is not clear. Largely written by companies specializing in this class alone.

TRUST: Transfer of property right to one person for the benefit of another.

UMBRELLA LIABILITY INSURANCE: A form of excess liability insurance available to corporations and individuals that protects them against claims in excess of the limits of their primary policies or for claims not covered by their insurance programs. This latter coverage requires the insured to be a self-insurer for a substantial amount, while the former serves as a secondary layer of coverage.

USE AND FILE RATING SYSTEM: Rates are filed with the state insurance department and may be used immediately without approval. This procedure occurs in many states that have open competition systems. (See the Fact Sheet in Chapter 1.)

USE AND OCCUPANCY INSURANCE: See BUSINESS INTERRUPTION INSURANCE.

VALUED POLICY: An insurance contract in which the value of the property insured and the amount to be paid in case of total loss is settled at the time the policy is written.

VALUED POLICY LAW: A state statute which specifies that in the event of total loss, the insured shall receive in payment the full amount of the policy, regardless of the principle of indemnity.

VOLUNTARY MARKET: The conventional insurance market where insurance is obtained from private insurance companies, in contrast to the involuntary market (i.e., FAIR Plan).

WAIVER: The voluntary relinquishment of a known right.

WARANTY: A statement concerning the condition of the item to be insured which is made for the purpose of permitting the underwriter to evaluate the risk; if found to be false, it provides the basis for cancelling the policy.

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